

# NATIONAL BIPARTISAN REPORT ON CENTRAL AMERICA

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## HEARINGS BEFORE THE COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE NINETY-EIGHTH CONGRESS SECOND SESSION

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FEBRUARY 7 and 8, 1984

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Printed for the use of the Committee on Foreign Relations





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U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1984

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# NATIONAL BIPARTISAN REPORT ON CENTRAL AMERICA

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TUESDAY, FEBRUARY 7, 1984

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:30 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy, Helms, Lugar, Mathias, Kassebaum, Boschwitz, Pressler, Murkowski, Hawkins, Pell, Biden, Tsongas, and Dodd.

Also present: Senator Wilson.

The CHAIRMAN. Indeed, it is a pleasure for the Foreign Relations Committee to welcome back once again Dr. Henry Kissinger and to have with us our former colleague, Senator Nick Brady. I understand that Lane Kirkland was to be with us, and Prof. Carlos F. Diaz-Alejandro, members of the President's National Bipartisan Commission on Central America. We are pleased also to have Senator Mathias here as one of the advisers.

For the information of the membership, it is the intention of the Chair and the ranking minority member to continue this hearing until 1 o'clock. At that time Dr. Kissinger has an urgent luncheon, and the Republicans and Democrats have their usual caucus luncheons; so we will make a few opening comments by committee members and then go right into the testimony.

As I have looked through the Kissinger Commission report, we are being asked for a \$400 million supplement for economic assistance in fiscal year 1984, \$1.7 billion in appropriations and guarantees for fiscal year 1985, and a \$1.2 billion amount for development assistance in 1986 to 1989.

Certainly Central America, as the Commission report points out, is absolutely crucial to our own national security interests and our national economic interests as well. When we consider the turmoil we had over the southernmost country, Panama, and that Panama is the link between the United States west coast and east coast; when we consider the treaty that we finally did work out that gives us the right even of intervention in case the neutrality is ever endangered, when we consider moving north of Central America up through Mexico and consider that 2,200-mile unguarded border with millions of crossings every day, we recognize that the cost estimates being made for development, economic and military assistance, might be

today far lower than they would be at any time in the future in the event that trouble continued in that area.

So we are looking today in this Commission report for what our own national security interests are, but we are also responding, as the Commission has called, to a call to conscience also; and I think that is an important aspect of the Commission work.

As I read the Commission report, there is a clear impression that the United States, and probably the United States only, can make a real difference. This is not just another aid program; this is a program that has to be designed in such a way that the projects can come from the countries involved and certainly be contributed to by countries surrounding them.

But, the differences whether they make it or not, whether there is stability or not, can be the differences that the United States of America can make and the cost is far less now than it might be ultimately.

We also know that the problem is a long-term problem and that it is now acute, with many factors, including outside interferences. I think we all would pay great tribute to Senator Scoop Jackson—and I invited Helen Jackson, as his widow and beloved friend of all of ours, if she should be here this morning—because we want to pay tribute to Senator Jackson for the original idea of having a bipartisan commission which was absolutely essential to the success of this.

I do not believe Helen Jackson has come in yet, but we hope that she can join us.

Finally, I would like to say that the most controversial part of this report, Dr. Kissinger, has been the military assistance end of it. It has been the most criticized, and we will probably have more questions on that aspect of it. But if I understood the President's presentation correctly the other day, the ratio has now been vastly increased for economic assistance and development assistance. It now is a ratio of 7 to 1 where I think we started with a ratio of about 3 to 1.

And I will finally look at the conditionality. I have discussed this with members of the Commission, just as I have discussed it with the governments—the respective governments of El Salvador—over a period of time. I personally consider conditionality an absolutely crucial and essential part of the entire effort. It is a must. And I think we can, with the help that you have provided to this committee, work out a responsible and effective mechanism for accomplishing that goal.

Senator PELL.

Senator PELL. Thank you, Mr. Chairman.

I join you in welcoming Secretary Kissinger and our other witnesses today. Your undertaking was an ambitious one. You have made a noble effort to design a coherent American policy for Central America.

I support some of the economic and social recommendations, but disagree with a good many of the political and security ones. In that regard I believe the main thrust of the report is still a doctrine of support for the current policy in Central America of placing a heavy emphasis on military solutions.

The Commission's call for substantial increases in military assistance, now supported by the administration's request for another \$400

million in the next 2 years in El Salvador, is not the road to a peaceful solution to that conflict.

I am heartened to see that most of the members of the Commission agree that military assistance to El Salvador should be linked to human rights progress and to political reform, and agree with the recommendation for conditionality based on human rights performance.

I am also concerned that the Commission recommends substantial increases in military assistance for Honduras. I have long been troubled by our growing military presence and role there, and I remember offering an amendment on the floor of the Senate that was defeated about 2 to 1 suggesting that we not finance the modernization of military airfields which had the potential of deepening the U.S. military commitment.

On the positive side, I agree with the Commission's thrust that there should be a more consistent and dynamic economic assistance program in Central America, particularly in the housing and health fields. I am concerned about the magnitude of the program of \$8 billion over the next 5 years, not only because of its budgetary impact on our deficit, but also because of the ability of the countries involved to absorb the huge infusion of aid.

Recent reports from El Salvador raise serious questions regarding our economic assistance to that country. And last Friday, Senator Dodd, Senator Bingaman, and I, concerned about reports that food donated to El Salvador under Public Law 480 was being sold in local markets, requested that the AID Inspector General undertake an immediate comprehensive review of this and similar programs of diversion or misuse of our economic assistance to El Salvador.

In conclusion, I believe that in countries like El Salvador where you have a small oligarchy and a large peasantry, you have countries that are ripe for revolution. And if this revolution is blocked, it will eventually become even more explosive.

Our task is thus not to block revolution but to guide it; and I am not sure that the Commission fully realizes this.

Thank you.

The CHAIRMAN. Thank you, Senator Pell.

We have been requested to have a couple of opening comments by the members. If we could hold it to 2 or 3 minutes.

We are pleased also to welcome Lane Kirkland, who has arrived. We are pleased to have you, Mr. Kirkland, and also to have a nonmember but a member very interested in the work of this committee, Senator Pete Wilson of California.

Senator WILSON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Helms.

Senator HELMS. Mr. Chairman, thank you.

As chairman of the Western Hemisphere Affairs Subcommittee of this committee, I of course take a particular interest in the report of the Kissinger Commission on Central America. I am most interested in the prescriptions which would be proposed by Dr. Kissinger and his distinguished group of physicians ministering to the health of the region, but I am fearful that the prognosis is bleak.

With all due respect to the able members of the Commission, I perceive the report to be a mandate for socialism financed by the U.S. taxpayer.

Now, I am reluctant to make such a judgment. Nobody has been more strong in his support of assistance to the beleaguered countries of Central America than I. Because of the intensive work on the area that we have done in the subcommittee, I am keenly aware of the danger that a socialist or Communist Central America would present to our own national security. Yet I feel obliged to make this statement.

I feel it my duty to the people of this country and to the President himself to state that the prescriptions presented by the Commission are a danger to our national security, nearly equal to those of the Communist incursion. Now, let me make myself clear.

If this were a realistic proposal to spend \$8,400 million to save Central America, it would be cheap at twice the price. But the American taxpayers are notoriously and appropriately wary about the way Congress throws around their money.

The \$8 billion in developmental aid is simply another round of the same nostrums that have failed in the past: the notion that central planning, multilateral institutions, central bank manipulation, and internal cartels can build a sound and productive economy.

There is much in the report about budget deficits and the crisis of debt rescheduling, but there is nothing said about, for example, the size of government payrolls in relation to GNP. Costa Rica is a good example of that. Forty percent of the people there, I understand, work for the government in one area or another.

The waste and inefficiencies caused by government-owned monopolies and banking systems, the imposition of wage and price controls, the maintenance of minimum wage requirements in the face of mounting unemployment, the use of marketing boards to set artificially low agricultural prices, the artificially established and manipulated exchange rates, the excessive controls on establishing and operating new enterprises, a stubborn increase of export taxes in the face of falling world demand—and an example of that is the coffee exports from Guatemala—the political allocation of credit and foreign exchange—all of these are in need of reform.

So, Mr. Chairman, I think the question is obvious: Why should the U.S. taxpayer be asked to finance economic recovery when the whole issue of real reform is studiously ignored?

Finally, Mr. Chairman, there remain two other aspects of the report which in my judgment would make it impossible to restore stability and hope for the region. I refer to the proposed Central American Development Organization [CADO], and to the repeated emphasis on confiscation and redistribution of productive agricultural lands, a process that is hidden behind the euphemism "land reform." We have heard a lot about land reform, but I shudder to contemplate, Mr. Chairman, the violent reaction among our own people in this country if this administration or any other were to propose this kind of so-called land reform in the United States.

In the interest of time, Mr. Chairman, I am going to submit a more detailed statement for the record, and I ask unanimous consent that it be included.

The CHAIRMAN. Without objection, it will be included.

We thank you for your unqualified statement of support for the Henry Kissinger Commission, Senator Helms.

[Senator Helms' prepared statement follows:]

PREPARED STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

**Mr. CHAIRMAN:** As Chairman of the Western Hemisphere Subcommittee of the Foreign Relations Committee, I took a particular interest in the report of the Kissinger Commission on Central America. I was most interested in the prescriptions which would be proposed by Dr. Kissinger and his group of physicians ministering to the health of the region.

I am afraid that the prognosis is bleak. The report is a mandate for socialism, financed by the U.S. taxpayer.

I am reluctant to make such a judgment. No one has been a stronger supporter of assistance to the beleaguered countries of Central America than I. Because of the intensive work on the area that we have done in the Subcommittee, I am keenly aware of the danger that a socialist or Communist Central America would present to our own national security. Yet I feel it my duty to the people of the United States, and to President Reagan himself, to state that the prescriptions presented by the Commission are a danger to our national security equal to those of the Communist incursion.

The obvious purpose of the Commission was to restore the economy of the Central American region, revitalize its institutions, and bring peace to its inhabitants. I see scarcely anything in the proposals which would accomplish any of these objectives.

If this were merely another academic study to be filed away on a shelf, one might pronounce it "interesting" as a polite means of dismissal. However, it is interesting only because it is a period piece, dredging up all the old policies of the past—the policies which failed to produce prosperity and development in the past. Unfortunately, even before this Senate has had an opportunity to discuss it, or evaluate its merits, the State Department has turned it into a legislative proposal firmly backed by a steamroller. I think we need to examine it slowly and deliberately.

If this were a realistic proposal to spend \$8.4 billion to save Central America, it would be cheap at twice the price. But the American taxpayers are notoriously wary about the way Congress throws around their money. If they had a chance to analyze the proposals in detail, they would find little to give them confidence that the \$8.4 billion would stabilize Central America at all. In all likelihood, the most it will do is to stabilize certain American commercial banks.

If we examine this proposal, we find that it is divided into two sections: \$8 billion in so-called developmental aid, and \$400 million in military aid.

The \$8 billion in developmental aid is simply another round of the same nostrums that have failed in the past—the notion that central planning, multi-lateral institutions, central bank manipulation, and international cartels can build a sound and productive economy. Although the prose is liberally spiked with appeals to support the private sector, the actual mechanisms put forward run in exactly the opposite direction—that is to say, in the direction of state intervention and control of the economy. The report proposes no less than the following:

(1) The resuscitation of the virtually defunct and discredited Central American Common Market, a concept that was the creature of the ill-fated Alliance for Progress. The Alliance itself was a triumph for the statist mentality of the non-market economy, but a failure in producing results. The Central American Common Market produced the typical result of thinking based on extreme market protection and cartels—a distorted economy based on high-priced industry and inadequate production. Experts believe that it set Central America back at least 10 or 20 years in the development of competitive free enterprise. We should not give one dime to Central America except upon the condition that all the remnants of the Common Market be dismantled.

(2) The establishment of a CACM Fund, which is supposed to refinance the trade deficits created by the CACM cartels. Such a fund would simply postpone the day of reckoning and perpetuate economic distortion. Needless to say this refinancing would be paid for by the U.S. taxpayer.

(3) U.S. membership in the Central American Bank for Economic Integration, supposedly to provide new financing for small businesses. Once again the U.S. taxpayer would provide the crutch for economies limping along with socialism.

(4) Establishment of a Trade Credit Insurance Program within EXIMBANK, to provide guarantees to U.S. commercial banks at U.S. taxpayers' expense.

As the saying goes, here we go again. It is interesting to note that such insurance is not now available, according to the Kissinger Commission report, because "the risks of non-repayment are viewed as excessive."

(5) The establishment of a so-called Emergency Action Committee of citizens from the region to propose "public-private initiatives." But it seems to me that the problem with the private sector is that there is already too much public initiative.

(6) The use of AID programs, that is, U.S. taxpayers' funds, to provide "infrastructure and housing." But such programs historically have put the cart before the horse. Infrastructure and housing follow, not precede, sound economic development and are paid for by it. To put it first is to burden the development process and postpone the achievement of the humanitarian goals which inspired the aid.

(7) Reduction of non-tariff trade barriers with regard to textiles, sugar, and meat. Access to U.S. markets is a financial benefit which is paid for by the export of U.S. jobs.

(8) Extension of OPIC guarantees to the region, which presently is considered too risky to qualify. Naturally the U.S. taxpayers would take the risk.

No doubt all of these measures would in a certain respect benefit certain parts of the private sector in the Central American countries. But they are benefits conferred at the expense of free enterprise generally. There are always the kinds of businessmen who fear the free market, but are prepared to make millions out of exclusive contracts or monopolies granted by governments or made possible by state controls which eliminate competition. Such behavior is not unknown in the United States. But the defects of our system, which constitute a small part of our economy, should not be exported and mandated in small economies where they become the rule.

Now, Mr. Chairman, there remain two other areas of comment which I will get to in a moment. Those which I have mentioned so far are those which have failed in the past, precisely because they deal with symptoms, and not with causes. Not one of them, not all of them together, can provide a climate for healthy free enterprise.

Free enterprise can grow only where it is allowed to grow. There is no mention whatsoever in the Kissinger Commission report of those pervasive barriers to development which are common throughout Central America, and, indeed, throughout the less developed countries generally. The LDC's are less-developed because they do not have the political will to remove these barriers.

There is much in the report about budget deficits and the crisis of debt rescheduling. There is little in the report about the real causes of the budget deficits—the political causes—and the poor judgment of the bankers who over-extended themselves. There is much talk about the high costs of oil, and the failure of the world economy generally. But there is nothing said about the size of government payrolls in relation to GNP, the waste, losses, and inefficiencies created by government-owned monopolies and banking systems, the imposition of wage and price controls, the maintenance of minimum wage requirements in the face of mounting unemployment, the use of marketing boards to set artificially low agricultural prices, the artificially established and manipulated exchange rates, the excessive controls on establishing and operating new enterprises, the stubborn increase of export taxes in the face of falling world demand, and the political allocation of credit and foreign exchange.

Why should the U.S. taxpayer be asked to finance economic recovery when the whole issue of real reform is studiously ignored? The measures proposed by the Kissinger Commission would pour good money after bad, with little hope that a fundamentally stable economy could emerge in the region.

And indeed, why is nothing said about the extensive corruption which is rampant not only in governmental and private institutions, but in political parties from left to right? While the U.S. system is by no means free from such a taint, there are many countervailing pressures to reveal and halt such practices. In many of the countries in the Central American region, as elsewhere, the levers of statist power provide a built-in bias for corruption. By reducing statism, these countries could decrease many opportunities for corruption. But once again, the Kissinger prescriptions work in the opposite direction: the \$8.4 billion in a statist framework would increase corruption.

Nor should the danger be looked at in a purely moralistic sense. From the standpoint of economic development, corruption is a waste of needed capital, a

diversion of resources (frequently out of the country), a heavy tax on businesses that are operating honestly, and a strong disincentive to new investment both from domestic and international sources.

Finally, Mr. Chairman, there remain two other significant recommendations of the Kissinger Commission, both of which would make it impossible to restore stability and hope for the region. I refer first to the proposed Central American Development Organization (CADO), and second to the repeated emphasis on confiscation and redistribution of productive agricultural lands, a process that is hidden behind that notorious euphemism, "land reform."

The Central American Development Organization, or CADO, is an interesting new hybrid. At first in the Kissinger Commission report it is described as a "privately-owned venture capital company." Yet later on it becomes clear that the initial capital for CADO would be put up by the U.S. taxpayer in the form of a long-term loan. And although we are told that those organizing the company would be expert entrepreneurs, it soon becomes clear that membership on the board would include government and union representatives, with only a few from private enterprise. In other words, the membership of CADO would be essentially political, with all the tensions and theories of economic development that such an approach necessarily suggests. In fact, the purpose of CADO would be far-reaching, and set priorities for the development of the whole region.

The proposed legislation implementing the Kissinger Commission report states the purposes of CADO as follows:

Such organization should serve the purpose of providing an effective forum for an open dialogue on and continuous review of Central America's political, economic, and social development, and should be composed of individuals from donor countries and participating Central American countries, including individuals from the private sector.

It is clear from the Kissinger report that CADO would become the ultimate czar not only of the Central American economy, but of its social and political structure. The report invests CADO with all the cliches of central planning, including the establishment of economic priorities, modernization of private institutions, promotion of social change, and comprehensive regional development.

What is even more disturbing is that CADO would get control over the distribution of U.S. taxpayers' funds in two ways: First, its own direct funding from the United States would be distributed by decisions of CADO, including the recipient nations. The United States would once more be in the position it is with the U.N. and other multilateral aid agencies, i.e., our only power would be to cut off additional funds. Second, CADO would make the determinations of social, political, judicial, and economic progress that would trigger cut-offs of U.S. direct aid. Thus, although the Kissinger Commission report is self-serving about requiring only "reports" and not "linkage," the mechanism for aid cut-offs, including military aid, is quietly set in place, with the ultimate decisions on U.S. security interests being turned over to a body of unspecified philosophical composition.

CADO is, in short, the engine of socialism, the kind of proposal that would seem more likely to come out of a meeting of the Socialist International than from freedom-loving Americans.

The other disturbing aspect of the Kissinger Commission report is the emphasis given to the seizure and redistribution of productive agrarian resources. The confiscation of a productive economic system, and its dismemberment or collectivization, is an integral part of every Marxist regime. Even though it makes no sense economically, and usually results in a lower standard of living for the peasant who is its victim, agrarian reform is always a high ideological priority for those trying to destroy a traditional, evolving society.

El Salvador has been no exception. The recent report of the AID Inspector General portrays a program that is an economic failure, a colossal waste of economic and human resources, a center of corruption, and an inauditable nightmare. Moreover, there are strong indications in the IG's report that \$2 million of U.S. taxpayers' money, discovered in a spot check, may have been spent in contravention of U.S. law.

Be that as it may, land reform has contributed more to the disintegration of the social and economic fabric of El Salvador than the terrorist attacks of the Communist guerrillas against the industrial infrastructure. The so-called land reform program dismantled the managerial and capital skills of the most advanced agricultural institutions in the country, those that were responsible for

the best-paying jobs in the agricultural sector and that were earning the most foreign exchange. It has aggravated the tensions in society by uprooting families and communities, while at the same time thwarting the hopes of those to whom great promises were given. Moreover, by setting aside the constitutional and legal system of the country, this revolutionary program has undercut the notion of just law so essential to the judicial process.

Those who are now complaining about the failure of the judicial system in El Salvador are all too often the very ones who were urging the setting aside of the legal system of the country in order to promote ideological ends.

The proponents of confiscation of land created the myth of a landed "oligarchy" of 14 families that controlled the country. But when the United States imposed the program of confiscation on El Salvador, it turned out that hundreds and hundreds of families lost their land in Phase I and thousands lost their land in Phase III. So-called land reform had very little to do with equity, and a lot to do with the cynicism of political revolution and political power. The purpose of this program was to destroy the base of political support of the middle class and the most productive sector of the economy.

The United States should disassociate itself in every way from the program of land confiscation and collectivization. U.S. law provides that the U.S. taxpayers' money should not go to underwrite this shameful and destructive program. Yet the Kissinger Commission report assumes that we should continue to back such a failure. Such a conclusion not only invalidates the fundamental recommendations of the Commission, but will contribute greatly to further instability in the region.

In conclusion, Mr. Chairman, I would like to add a note on military aid. I favor military aid for the region. There is no need to send U.S. soldiers into the region, when the local citizens are perfectly willing to fight for freedom. Yet because of the desperate situation in El Salvador, there are some, even conservatives, who would urge us to swallow the \$8 billion elephant of socialism in order to catch the \$400 million gnat of military aid.

But the only reason to give military aid is to reinforce the national security interests of the United States. Yet the Kissinger Commission would have us turn over that decision ultimately to CADO, as mentioned before, with an undetermined political make-up. It is CADO which would make the decisions on human rights and social reform which would turn on the spigot of U.S. military aid.

Such an abdication of U.S. interests is totally unacceptable.

It seems to me that the priorities of the Kissinger Commission are totally reversed. There is a war on in Central America. As long as there is a war on, there will be economic disruption and social suffering. We cannot expect that the Salvadoreans can divide their energies between social and political reforms while trying to win a war at the same time.

The first step should be the eradication of the guerrilla movement; only after that can we expect progress toward a stable society. The people of El Salvador showed through the electoral process that they would support a government that is less than perfect in order to restore peace and order. We must give the people of El Salvador the military means to win the guerrilla conflict, without making it conditional upon achieving sweeping social reforms as a precondition.

The Kissinger Commission report, therefore, totally misses the mark. If its recommendations are adopted, they will contribute to the further disintegration of social structures in Central America, and hasten the spread of Marxism. The Kissinger Commission recommendations will result in a disappointment of the legitimate aspirations of the people of the region for freedom. The more money that is poured into the statist structures promoted by the Kissinger Commission report, the greater will be the corruption, the inefficiency, the cynicism, and the suffering of the people. If we wish to protect our own interests and to give the people of Central America a chance to win their freedom, we must reject those recommendations.

Senator BIDEN. Mr. Chairman.

The CHAIRMAN. Senator Biden.

Senator BIDEN. Secretary Kissinger, members of the panel, notwithstanding Senator Helms' comments, I hope we can use this Commission report as the beginning of the formation of a bipartisan foreign policy, not only as it affects Latin America, but quite bluntly, although you spoke only of Latin America, as it affects American foreign policy.

Secretary Kissinger, notwithstanding the fact also that I have had disagreements with you when you were the Secretary of State, I must say that I do not think we have had a foreign policy, a comprehensive foreign policy in this country since you have been Secretary of State.

I think the last administration, the Democratic administration, and this administration both lack comprehensive foreign policies. There was the naive notion, in my view, in the last administration that through the exercise of a logical extension of détente and the institution of a notion of the policy of human rights that we could somehow modify Soviet behavior.

I would argue that this administration is merely a Carter administration revisited from the right, an administration that believes and is preoccupied with only one element of American foreign policy and that is the military side of the equation. Again, the notion that if we could just build our military strong enough and be tough enough, we could again modify Soviet behavior.

It seems to me whether you are talking about Latin America or any other part of the world, the issue is really how we are going to manage what will be an ongoing conflict, an ongoing conflict as long as I am likely to be around this place, one that can be managed in a way that protects our interest and avoids war.

And I would argue that notwithstanding the fact, to use that phrase for the third time, that the United States, and more importantly, Cuba and Russia, are in fact involved to some extent in Latin America, if we took all the protagonists, the major protagonists—the United States, the Soviet Union, and Cuba—and flew them all to the Moon, we would still have difficulty in Latin America.

There is a sea change taking place down there, at least your report implies, and I think it is an important contribution you have all made to suggest that there is no one single approach that can be taken in terms of military and/or economic aid.

So I compliment you on your effort. I will during the period of this meeting and subsequent meetings have points of departure and disagreement with you, but I sincerely mean this when I say it; that now is the time for us to establish a bipartisan foreign policy, and now is the time for us to set in motion, with a little bit of help from the Congress and this administration, whether it succeeds itself, or the next administration, a foreign policy that is more than reactive; a foreign policy that understands that diplomacy is not the only, but one of the elements of the conduct of foreign policy, that military parity is essential but that it is also important to understand we need a much more sophisticated view toward the Third World, again in spite of what my friend from North Carolina had to say here earlier.

So I look forward to engaging you, Dr. Kissinger, and other members of the Commission, on specific points of the report; but I hope, and sincerely mean it, I hope this can be a point of departure for both this administration and the Congress to repair what I believe has been an absence of a comprehensive policy, not only for the region but for this country for the last 6 years.

The CHAIRMAN. Thank you, Senator Biden, very much.

Senator Lugar.

Senator LUGAR. Mr. Chairman, I look forward to hearing the report from the Commission. I have no opening statement.

The CHAIRMAN. Senator Dodd.

Senator DODD. I have nothing.

The CHAIRMAN. Senator Mathias.

Senator MATHIAS. Mr. Chairman, since most of the meetings of the Commission were closed, there is probably not a very clear indication in public of exactly how the Commission operated, and it might be interesting to recall the physical arrangements under which the committee worked.

The members of the Commission sat at a circular table, and then the so-called senior counselors were seated in a concentric circle outside of that table. And I must tell you that in the opening hours of that Commission we lived in mortal fear that we would be the victims of flying shrapnel from the inner circle.

But I am glad to say that our fears were unfounded. We ended up not only unscathed, but with a unanimous report. And I would say that it is something next to a miracle that the group drawn from such disparate quarters, not only of the country but of our ideological geography, could come up in the final analysis with a unanimous report.

Now, I said we sat around a circular table, and of course a circular table has no head, and it was a question at the beginning of whether a circular table would fit the personality of the chairman, because he is known to be an intellectual dictator of any company into which he is cast.

But very soon it was clear that he was willing to be merely the primus inter pares, to work with every member of the Commission, to draw out the talents of every member of the Commission, and to consider the prejudices and the experience of every member of the Commission. So that it was an extraordinary operation to witness.

Now, in response to Senator Helms, let me say that I sat in enough meetings to know that every option was considered. No options were ignored. We went beyond the realm of merely considering what was possible. We imagined even things that were clearly impossible.

And in the final analysis I think we came down to a unanimous report, because there really weren't many other choices, because the decisions that we made were dictated by the hard reality of the problems.

And so I hope that not only this committee but the Congress will view with great objectivity the recommendations of this Commission and the imperatives that are presented by the report.

Senator HELMS [presiding]. Senator Kassebaum.

Senator KASSEBAUM. I have nothing.

Senator HELMS. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

I feel that one of the Commission's major contributions will certainly be an enhanced understanding of the nature and urgency of the Central American crisis across our country. There is no question that the crisis is very real, and it must be dealt with in an effective manner.

I do not expect the Kissinger report to resolve the major division in the country over how we should effectively address that crisis; but I do believe that the record should be read by all Americans so that this country can have a better grasp of the complexities of plotting the region's future.

Mr. Chairman, I would like to commend the Commission for their analysis, for their diligence in attempting to forge what I think is truly a bipartisan consensus on this issue. I look forward to participating in the hearing, and I think it will address many unanswered concerns about the Commission's recommendations. And I commend the Kissinger Commission and those participants that have given so much of their time, and my former colleague, Senator Brady. It is nice to see you back.

Thank you.

Senator HELMS. Thank you, Senator.

Senator Tsongas, any comment?

Senator TSONGAS. No.

Senator HELMS. Senator Pressler.

Senator PRESSLER. Dr. Kissinger and members of the Commission, we thank you for your work. I noted in this morning's Wall Street Journal an article entitled "Can Central America Absorb More U.S. Aid? Many Experts Say No. Bureaucratic Tangles Delay Many Projects Already. Corruption May Increase."

I think this is a concern that our taxpayers have. We do recognize the need for a certain level of aid, but each commission and each report always calls for more spending; and the really creative thing that we are going to be listening for are reforms and a way we can get this job done without spending so much money.

When food supplies sit on docks, and the distribution system is not working, and there is corruption, we must be careful about spending more on aid. In the article it is pointed out that in seven Central American countries U.S. aid is backed up and unspent, and a lot of things that we send do not get distributed.

So the really creative thing that I will be listening for is how we can use better what we are already spending. I think that some reforms are very necessary. I am very concerned about the level of foreign aid spending proposed here in a situation where a lot of experts are saying there is already aid backed up. And I think that our taxpayers, or at least South Dakota taxpayers, are very concerned about increasing foreign aid in a time of high deficits, especially when existing aid is not being utilized properly.

So I will be listening very closely to the Commission's report on how we are going to better distribute what we already are giving.

The CHAIRMAN [presiding]. Thank you.

Senator Hawkins.

Senator HAWKINS. Thank you, Mr. Chairman.

I would like to join my colleagues in welcoming Dr. Kissinger, my good friend, Senator Brady, Mr. Kirkland, and Prof. Diaz-Alejandro to our committee.

You and your colleagues are to be commended for the role you played in formulating a policy of recommendations for the government to follow. The task was enormous, but so are the skills that you brought to the job.

You have every reason to be proud of your work. Your report lays a foundation. I doubt, however, that there is a single member of this committee that does not have a number of questions for you. Your report is finished, and now our work begins.

I look forward to asking questions of you along with the rest of the members of this committee.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Boschwitz, we are limiting our opening comments to 2 minutes, but you certainly are recognized.

Senator Boschwitz. I will limit mine to saying that I have no opening comments. I am very interested in hearing the witnesses. I have read most of the report and found it very interesting.

The CHAIRMAN. Dr. Kissinger, we are pleased to have you. You can give your complete statement or summarize it, and the total statement will be put in the record, and then it will be up to you to call upon any members of the Commission that you would like.

**STATEMENT OF HON. HENRY A. KISSINGER, CHAIRMAN, NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA, ACCOMPANIED BY HON. NICHOLAS BRADY, FORMER U.S. SENATOR; LANE KIRKLAND, PRESIDENT, AFL-CIO; AND PROF. CARLOS F. DIAZ-ALEJANDRO, ECONOMIST, YALE UNIVERSITY**

Mr. KISSINGER. Mr. Chairman and ladies and gentlemen of the committee, it is a great privilege for me to have this opportunity to appear before you again. We have distributed a statement, and some of my colleagues and I thought perhaps it would be most efficient if I began with a summary, and then perhaps Professor Diaz-Alejandro would explain how we arrived at the figures that we are proposing to the Congress, or that we proposed not to the Congress but to the administration, which then has the responsibility to propose them to the Congress. And perhaps Mr. Kirkland and Senator Brady would like to add whatever they wish—and then get as rapidly as we can to the question period.

All of us on the Commission began, with all of our diversities, with the conviction Senator Biden has also expressed that it is imperative for this country to achieve a bipartisan foreign policy. We cannot change our foreign policy every 4 or 8 years, or we will become a factor of instability in the world.

We cannot afford in an area so close to us and so vital to our security and economic prospects to engage in a divisive controversy if it can possibly be avoided; and this is why a very divergent group of commissioners managed to achieve a unanimous report by asking ourselves a question: In each category of issues that we considered, what is the right thing to do and where are we trying to go as a nation and for the sake of free peoples in this world?

I would like to take this opportunity to thank Senator Mathias, who as a senior counselor spent an enormous amount of time with us. He is, of course, not responsible for all of the conclusions. The senior counselors were not asked to sign the report. But he made a major contribution to our discussions, as did the other Members of both parties of both the House and the Senate who participated in our deliberations.

Let me turn to the substance of our report. As Senator Mathias has pointed out, the report was unanimous, and that in itself is a significant event for our country.

Second, we attempted to look at the problem of Central America on a comprehensive basis. We agreed that it is an area vital to our security and vital to the conduct of our foreign policy, which in our view should be prevented from being dominated by some or all of the assaults that now take place against it.

The situation in Central America, in our view, has several causes. Some of the roots of this situation are indigenous. They lie in a long history of exploitation, in social injustice, maldistribution of national income, closed political systems, and governmental oppression.

But in our judgment, Central America's predicament has been brought to a head by the confluence of Soviet-Cuban intervention and international economic recession. It is the first that has threatened efforts to achieve peace and progress in the region, and it is the second that has aggravated the human suffering and that makes the prospects for recovery so difficult.

The gross domestic product per capita in Central America has declined since the late 1970's by 35 percent in El Salvador, by 12 percent in Honduras, by 23 percent in Costa Rica, by 14 percent in Guatemala, by 38 percent in Nicaragua. These are grave statistics.

We attempted to define some goals that we could realistically set for ourselves. If Senator Helms can stand it, I will agree with him on the point that there are major obstacles to private initiatives in those countries, and that it is my personal view that those developing countries that have succeeded in development were those that have encouraged private initiatives; but those were not countries that were wracked by civil war, outside intervention, and countries in which the infrastructure had been systematically disrupted.

And so in Central America, for an interim period until peace is restored, it will be next to impossible to achieve an adequate rate of outside private investment. There is a necessity for governmental assistance in other parts of the world, but, nevertheless, I might join some of the comments that we have heard earlier.

Now, the goal we have set, the way we arrived at the figure of \$8 billion that has been mentioned so widely, will be explained more fully by Professor Diaz-Alejandro. I want to simply say the goal we have set is to return Central America by 1990 to the economic and social conditions that existed there in the late 1970's before the civil wars and the global economic recession wrecked the social and economic structure.

We considered this an absolute minimum goal to give hope and a sense of purpose to any other efforts we might undertake in that region and all the programs that flow from it, which we will be delighted to comment on in reply to your questions and which are before you both in the report and the summary statement. These were all related to that objective.

Let me say a word about the so-called Central American Development Organization. We thought it was essential that a program put forward to save and develop free institutions in Central America be seen as a program developed by Central Americans and not as something handed down by the United States for Central America.

We also wanted to create a structure in which the private sector could participate in setting criteria and in making judgments. We

also wanted a structure in which such issues as human rights could be considered by commissions that might be more sensitive to local circumstances than a group of North Americans coming down on brief visits. So we believe that the Central American Development Organization is not conceived as a multilateral international supergovernmental institution, but a way to give the Central Americans a sense of participation in the reforms that are imperative for their own future.

And I want to stress that whether you ladies and gentlemen agree with our specifics, none of us on the Commission believed that the future of Central America was purely a military problem. We did believe that one had to put before our people and the people of the Western Hemisphere a version of a positive future. But there is the fact, to which I would now like to turn, that there is a guerrilla war in this region, and that unless peace can be achieved and security established, none of the programs we are talking about or any alternative programs are going to achieve the objectives on which I hope we can unite.

I again would like to stress that every member of the Commission as far as I know would prefer a political solution to the problems in the area. But let me define how we conceived the security problem. As we saw it, there were two aspects to the security problem, and that fact emerged during the odyssey in which we all engaged.

I believe it is correct to say we all started thinking it was primarily a problem of El Salvador, but we all concluded with conviction that there was an important problem of Nicaragua. The problem of security has, therefore, two aspects: one, the danger of one country in Central America being armed by foreign sources, specifically the Soviet Union and Cuba, at a level far exceeding anything that has ever been seen in Central America, with supporting intelligence and other machinery from a global collection of countries.

If that trend continues, either that country will achieve a military predominance, or it can be resisted only by a policy of containment whose practical consequence will be the militarization of the whole region.

Our diplomatic program, therefore, for the region recommends that this security problem be addressed in the following manner: one, that the military establishments in all of the countries in Central America be reduced by substantial percentages.

Originally we were going to say to 1979 levels, and I still think that would be a good yardstick; but we did not want to get involved in too detailed a consideration. But a very substantial reduction of all military establishments. Elimination of all foreign military bases; the elimination of military advisers, and agreement by all of the five Central American countries to pluralistic democratic institutions.

We did not see how we could ask anything less of Nicaragua than we are asking of El Salvador and that Nicaragua has already promised to the OAS.

Let me add, incidentally, that all of these proposals are elaborations of proposals already made by the Contadora group of Mexico, Venezuela, Colombia, and Panama whose views we took extremely seriously. With respect to El Salvador, we also believe that a diplomatic solution would be desirable.

We did reject as a Commission the approach that has the label of power sharing. As put forward by the guerrilla groups, this would require the advance formation of a provisional government from which the conservative party that had 30 percent of the vote would be excluded from the political process, in which the army would be disbanded or reorganized, and in which the practical consequence would be the collapse of the existing institutions before any elections could ever be held.

We did believe that an attempt should be made to see which elements of the insurgent groups, and if possible all of them, would be prepared to participate in a genuinely free political process and to negotiate about assurances by way of an electoral commission and other means in which the security guarantees could be given for a genuinely free political process.

At the same time, we have to face the fact that maybe this diplomatic approach will not work. And it is in this context that it is our view that security assistance is of fundamental importance.

Where I and my colleagues might differ from some of the statements one sees in the press occasionally is that we do not think, or I do not think, that diplomacy is an alternative to security efforts but a complement to them and a consequence of them. And we would like nothing better as a Commission than a diplomatic outcome along the lines that we sketched here.

But if that should not be achievable, if there is no agreement to substantial disarmament in the area—to a reduction of the influx of outside arms which reached 15,000 tons in Nicaragua last year—to low and agreed levels in all of the countries of Central America, then the crisis will continue.

So to sum up, ladies and gentlemen, we need a vision of a positive future. We need a diplomatic program that puts an end to the insecurity that organically exists when arms are being built upon all sides and foreign advisers turn these countries into surrogates for larger countries. And we must be prepared to assist those who want to resist foreign and indigenous military pressures, and we must be able to do all the things or, in our view, we will not be able to do any of them.

If I could just read one paragraph from the introduction of the Commission which best sums up our attitude, and it reads as follows:

Because the Commission had 12 members, each with strong individual views, there obviously are many things in this report to which individual members would have assigned different weight or which they would have interpreted somewhat differently or put differently. Such is the nature of commissions. But these differences were personal, not partisan.

This report, on balance, does represent what all of us found to be a quite remarkable consensus considering the often polarized and emotional nature of the debate that has surrounded Central America. Among ourselves we found a much greater degree of consensus at the end of our odyssey than at the beginning.

This in itself gives us hope that the Nation, too, as it learns more about Central America, its crisis and its needs, will find its way to a united determination to take and support the kind of measures that we believe are needed in the interest of the United States and of the hemisphere, and for the sake of the sorely beleaguered people of Central America.

Now, if I may, Mr. Chairman, could I ask Professor Diaz-Alejandro to give a brief summary of how we arrived at the economic figures, and

then perhaps Lane Kirkland and Senator Brady would be prepared to add a brief comment.

[Mr. Kissinger's prepared statement follows:]

PREPARED STATEMENT OF HON. HENRY A. KISSINGER

Mr. Chairman, my colleagues and I appreciate this opportunity to discuss with the Committee on Foreign Relations the work and the report of the National Bipartisan Commission on Central America.

I should first note, Mr. Chairman, that a distinguished member of this committee, Senator Charles Mathias, contributed significantly to the deliberations of the Commission. He served along with Senators Domenici, Inouye and Bentsen as senior counsellors to the Commission, as did Congressmen Wright, Barnes, Bloomfield and Kemp. Senator Mathias found time in his crowded schedule to attend many of our meetings. And he provided us with invariably wise counsel. But I do want to emphasize that neither Senator Mathias nor the other senior counsellors who gave us such valuable assistance bear any responsibility for the Commission's report. That responsibility rests solely with the 12 members of the Commission.

As you will recall, Mr. Chairman, it was the late Senator Henry Jackson who proposed the establishment of a bipartisan commission on Central America. He saw that the crisis confronting this country in that nearby region called for a national response, above party and above partisanship of any kind. As a man who devoted his life to the national welfare, he well knew that such a challenge demands a bipartisan policy. In his mind was the Marshall Plan, that historic example of how the Congress and the Executive can work together across party lines to safeguard the national interest and advance our Nation's ideals.

In the spirit in which the Commission was conceived we have delivered to the President and the Congress a report reflecting a broad and truly bipartisan consensus on the basic issues for U.S. policy in Central America. We on the Commission were of diverse backgrounds and diverse political convictions. Among our members were liberals and conservatives, Democrats, Republicans and Independents. But during more than 5 months of intensive labor we laid aside partisan considerations and party labels. Our report is the statement of an independent citizens group, animated in the best American tradition only by concern for the common welfare. It seeks to convey an objective account of what we found to be the realities of Central America and of what we believe should be done for the good of our neighbors there—and for the good of the United States.

Let me briefly state what this bipartisan, or perhaps better said non-partisan, consensus embraces.

First, the Commission has determined unanimously that the United States has fundamental interests, including national security interests, at stake in Central America. We have concluded that these interests are in jeopardy because of an acute crisis in the region—a very real crisis demanding urgent action.

The region's grave situation has indigenous roots. These lie in a long history of the exploitation of the many by the few—in social injustice, maldistribution of national income, closed political systems and governmental oppression. We subscribed fully in the report to the statement of the Catholic Conference of Latin American Bishops in 1979 that there is a "contradiction of Christian existence" in the "growing gap between rich and poor."

But in our judgment Central America's predicament has been brought to a head by the confluence of Soviet-Cuban intervention and international economic recession. It is the first that threatens all efforts to achieve peace and progress in the region. It is the second that aggravates human suffering and makes the prospects for its alleviation so difficult.

The economies of Central America, highly dependent on the export of primary commodities and on inter-regional trade, have been devastated by world recession and local violence. Gross domestic product per capita has declined since the late 1970's by: 35 percent in El Salvador, 12 percent in Honduras, 23 percent in Costa Rica, 14 percent in Guatemala, 38 percent in Nicaragua.

These are grave statistics. What they mean in human terms is massive unemployment, more hunger and diminished hope that the fearful consequences of the region's grinding poverty can be overcome. Today one-third of all the people in Central America lack sufficient income to feed themselves at an adequate nutritional level.

But the Commission determined that a restoration of economic growth alone would not reach the roots of the Central American crisis. Fundamental social and political reforms must go forward in several countries if lasting solutions are to be achieved. Above all, it was clear to us after these months of intensive study that the overwhelming majority of Central Americans aspire to live in freedom—in democratic, pluralistic societies. Thus, the cornerstone of the program we propose is the commitment of all the nations of Central America to democratization—and a corresponding commitment by the United States to support and assist in that process. We can contribute substantially through expanded exchange programs, through the National Endowment for Democracy, by encouraging grass-roots organizations where democratic practices are learned and, above all, by making free societies a central objective of every one of our development programs.

Injustice and poverty create the conditions in which subversion and insurgency can thrive. The Commission's report argues that more widespread economic opportunity is critically important to the region's future well-being. We have proposed a series of measures to support agricultural development, strengthen small business and the small farmer, promote cooperatives and generally to broaden opportunities for those who until now have been kept on the margins of economic life. Reform will ultimately depend, of course, on the policies of the Central American governments themselves. But the United States can do much to encourage and reinforce movement in the right direction.

We also put forth an extensive list of proposals in response to the pressing needs of Central America's poor for basic education, better health and housing. These include measures to reduce dramatically the scourges of disease and malnutrition among children, to eradicate malaria and dengue fever, to broaden literacy and primary education, and to expand low-cost housing programs particularly through private-sector initiative. The United States in our judgment should demonstrate an unmistakable commitment to the goal of a better quality of life for Central America's poverty-stricken peoples. By doing so we serve both our strategic and moral interests. Here, as in the effort to advance democracy, those interests coincide.

Our report addresses the requirement for immediate action to arrest the alarming decline in economic and social conditions in Central America. We recommend an increase now in U.S. economic assistance of \$400 million, as well as other measures to deal with the short-term impact of the crisis. But the Commission recognized, as I am sure this Committee does, that it will take many years to overcome the legacies of social injustice and economic underdevelopment. We have therefore emphasized the necessity for a long-term program, solidly based on coherent and steady U.S. policy—a lasting commitment by this country to the freedom and welfare of our neighbors in Central America.

The Commission's program is ambitious, but by no means extreme or gargantuan. What we are recommending in tabling the figure of \$8 billion for economic assistance over the next 5 fiscal years is not much more than double what the United States is doing now. This figure reflects a careful analysis of the region's external financing requirements and is based on what I would describe as rather optimistic assumptions. In terms of Central America's needs, it is a moderate request, one designed to help these countries return by 1990 to where they were in 1978-1980 when per capita income was growing at about 3 percent a year.

To give structure, consistency and continuing direction to this sustained effort the report proposes that authorities at a high level of our government meet with Central American counterparts to negotiate the creation of the Central American Development Organization (CADO). In our concept CADO would provide guidance and review for the development programs—economic, political and social—of those Central American nations eligible to join by reason of commitment to internal reform and democracy, as well as to external non-intervention. We envisaged other democracies outside the region as prospective participants. It was our judgment that to be effective CADO should serve as a channel for significant external assistance to the region.

Mr. Chairman, the distinguished President of Costa Rica, Luis Alberto Monge, has characterized the report of the Bipartisan Commission on Central America as an "intervention against misery and against ignorance . . ." Those words are heartening indeed to my colleagues and me. That was our intention: to call upon

our government and our people to engage fully at the side of our Central American neighbors in the struggle against misery and ignorance.

For that effort to prosper, however, more than reform and resources will be required. There must be an end to the violence that wracks Central America today. The killing must stop so that the building of better societies can go forward.

A fundamental conclusion we reached after months of careful study was that the various elements of the crisis—the economic, social, political and security issues—form, as the report puts it, a seamless web. They cannot be separated. Each impacts one on the other. For example, lasting progress on the economic and social fronts requires peace. The pace of reform and economic expansion simply does not match that of insurgency. Guerrillas can destroy much faster than reformers can build. But on the other side, peace cannot be achieved unless there is tangible hope for escape from misery and oppression. Thus, the Commission has proposed a comprehensive program to deal with all these elements. We are gratified that the Administration has adopted that approach in announcing the forthcoming submission to the Congress of the "Central America Democracy, Peace and Development Initiative Act of 1984." It is our hope that the Congress too will find the concept of a comprehensive program in the national interest.

I believe the report makes clear that essentially two situations in Central America threaten the security of the region and thereby the interests of the United States. The first is in Nicaragua where an unprecedented military buildup, an ideological commitment to the export of revolution and military ties to the Soviets and Cubans weigh heavily on neighboring countries. Last year 15,000 tons of arms reached the Sandinista armed forces from abroad, including Soviet-built armored vehicles and other heavy armaments. There are now at least 25,000 regular troops and another 50,000 active reserves and militia in that country of no more than 3 million people. No less than 2,000 Cuban military advisers are in Nicaragua, and as the Commission found for itself on our visit to Managua, the Sandinista military establishment is closely tied into the Cuban-Soviet intelligence network.

Nicaragua's menacing military machine, the Soviet-Cuban connections and active Sandinista support for insurgency and subversion in neighboring countries create fear in the region—and threaten it with arms races and general militarization.

To deal with these issues, the Commission's report proposes a vigorous negotiating effort directed toward including Nicaragua in a regional settlement designed to ensure lasting security guarantees for all the nations of Central America. Such a settlement would be squarely based on the principles contained in the 21-point proposal of the Contadora group. These would include non-intervention and respect for national sovereignty; an end to the arms traffic and other actions directed at subverting governments; the prohibition of foreign military forces, advisers and bases; a substantial reduction in the size and armaments of military forces; and the commitment by all countries of the region to internal pluralism and free elections. I emphasize that this last point would apply to all the nations of Central America. My colleagues and I felt strongly that it would be unjustifiable to ask more in this context of El Salvador than of Nicaragua. And we believed that by calling for democratization as an important element of regional security, as the Contadora proposals do, we were identifying ourselves with the deepest aspirations of the peoples of Central America.

In framing these recommendations the Commission drew heavily on our consultations with the leaders of the Contadora countries. We had the opportunity to discuss the issues of negotiations and peace with the presidents and other high officials of Mexico, Venezuela, Panama and Colombia—the four members of the group. Their efforts to construct a peaceful settlement constitute a most important initiative, one meriting the unstinting support of the United States. You will note, Mr. Chairman, that the Commission's report urges such support and endorses the Contadora process as "deserving the gratitude and encouragement of all the nations of the hemisphere."

El Salvador's tragic civil war is the second situation in which critical security concerns must be addressed. It was the Commission's judgment that a stable resolution of that bitter conflict consonant with the aspirations and well-being of the Salvadoran people must be based on the democratic process.

The Commission determined that proposals for what is commonly described as "power-sharing" did not meet that essential criterion. Dissolving the existing

elected government and replacing it with a provisional regime in which the insurgents would have a major role seemed to us neither fair to the people of El Salvador nor workable in terms of reconciling the contending forces. As we saw it, the final outcome of such a scheme could well be Marxist-Leninist domination and the imposition of a government unwilling to rest its authority on the consent of the governed.

But our report does recognize the importance of bringing into the democratic process those elements of the guerrillas' political-military front prepared to participate and abide by the popular will. In addition, the report emphasizes the necessity to establish conditions in which all political movements, including those of the left, can compete freely and peacefully for the voters' favor.

Further, we concluded that the establishment of such conditions should properly be the subject of negotiations between the insurgents and the government. But we found that time constraints and the circumstances now prevailing in El Salvador make it unlikely that meaningful negotiations can be carried out before the national elections scheduled for March 25. The report therefore calls for these negotiations to take place once the new government is elected. The objective would be to enable all who so desired to take part fully and without fear in the subsequent legislative and municipal elections.

I cannot stress too strongly how much importance the Commission attached to vigorous diplomacy on the part of the United States, diplomacy carried out as the report states, to achieve the broad objectives of:

Stopping the war and the killing in El Salvador;

Creating conditions under which Nicaragua can take its place as a peaceful and democratic member of the Central American community; and

Opening the way for democratic development throughout the isthmus.

But it was also our conclusion, Mr. Chairman, that diplomacy and negotiations do not take place in a vacuum. We cannot escape the fact that the Cubans, Soviets and Nicaraguan Sandinistas are engaged in a serious and substantial effort to promote Marxist-Leninist revolution in the region. The armed insurgents who serve their cause are unlikely to perceive negotiations as anything more than a tactical maneuver as long as they believe they can win power on the field of battle. Similarly, the Sandinistas would have no apparent cause to redeem the promises of democracy and non-alignment they made to the OAS in 1979 unless significant incentives and pressures were present to move them in that direction.

The diplomatic effort then can complement but not substitute for the other actions necessary to an increased sense of security and rising prospects for political and economic progress in the region. As I previously suggested, Mr. Chairman, our report reflects the Commission's judgment that all the elements of the crisis must be addressed simultaneously. We found no short cuts—no gimmicks, negotiating or otherwise—to produce quick solutions. Rather, it was the view of the Commission that to attempt to deal singly with any one aspect—diplomatic, economic, political or security—would be a certain recipe for failure. Thus, as one element of a broad program, the report recommends increased military assistance under proper conditions to the Governments of El Salvador and Honduras. That assistance will reinforce the diplomatic effort by helping to create the conditions under which peaceful settlements may be reached and the objective of a better life in freedom for all Central Americans successfully pursued.

Gonzalo Facio, the former Foreign Minister of Costa Rica and a man well known to members of this Committee, has said of our report that it sets forth "the form in which these political, economic, social and military problems can be confronted today—problems which have been incubating for centuries and which are now being exploited by the Soviet Union and its Cuban satellite." I believe that statement summarizes very well what we of the Commission were trying to do.

To return to the question of consensus, Mr. Chairman, you are aware that members of the Commission attached six notes to our report offering individual views on certain of its aspects. Two, concerns the anti-Sandinista guerrillas—the so-called *contras*—and one, which I signed with two other Commissioners, supports conditionality as applied to military aid to El Salvador but asks that it not be interpreted in a way that would lead to a Marxist-Leninist victory in that country. Another note concerns the convictions of one member that the report should have stressed to a greater and more specific degree the need to facilitate Central American exports to the United States. The remaining notes strike me

as more in the way of observations or amplifications than dissents. Altogether these views take up a little more than four pages of a report 132 pages long.

To provide a general perspective, I would like to cite the concluding paragraph of the Introduction to the report. It reads as follows:

Because the Commission has 12 members, each with strong individual views, there obviously are many things in this report to which individual members would have assigned different weight, or which they would have interpreted somewhat differently or put differently. Such is the nature of commissions. But these differences were personal, not partisan. This report, on balance, does represent what all of us found to be a quite remarkable consensus, considering the often polarized and emotional nature of the debate that has surrounded Central America. Among ourselves, we found a much greater degree of consensus at the end of our odyssey than at the beginning. This in itself gives us hope that the nation, too, as it learns more about Central America, its crisis and its needs, will find its way to a united determination to take and support the kind of measures that we believe are needed in the interests of the United States and of the hemisphere, and for the sake of the sorely beleaguered people of Central America.

Finally, Mr. Chairman, let me emphasize that in proposing this comprehensive program for U.S. policy toward Central America the Commission does not promise success. There are many obstacles. The problems run very deep, and have, as Mr. Facio says, been incubating for centuries. But it is the firm conviction of the Commission that a failure on our part to make this difficult effort will later cost our nation dearly. The threat to the interests of the United States can only mount rapidly as turbulence and subversion in Central America spread. Time is short. Let us make that effort now.

[The following information was subsequently supplied for the record:]

THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA

*Washington, DC, March 5, 1984.*

Hon. CHARLES H. PERCY,  
*Chairman, Senate Foreign Relations Committee,*  
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: During our appearance before the Committee February 7, you graciously offered to keep the record open for additional comments my colleagues and I on the Bipartisan Commission might like to make, especially with respect to questions arising in the follow-on hearing of February 8.

Some of the witnesses at that latter hearing appeared to take it for granted that the United States suffers from a highly negative image in Central America. Clearly, hostile public views of our country in the region would make it even more difficult to carry out our policy objectives there. However, the assumption of those witnesses conflicts with both the opinions of many others who have lived and worked in Central America and with the Commission's own experiences. Our more positive impressions have been strengthened by recent polling data which indicate that many Central Americans are in fact well disposed toward the United States.

The United States Information Agency surveyed public opinion in four Central American countries between March and October 1983. The survey sample was taken from adults who had completed at least one year of secondary school and covered the capital cities of Costa Rica, El Salvador and Guatemala, as well as the two major cities of Honduras, Tegucigalpa and San Pedro Sula. As you will note from the attached tables, the respondents by overwhelming majorities held generally favorable opinions of our country. By large percentages they saw the United States as the one country helping to resolve economic problems in the region. Further, you will see that there was very little support for the propositions that we are out to destabilize governments or that we pose a military threat.

On the negative side, a majority in Guatemala and a substantial percentage in Costa Rica were of the opinion that the U.S. interferes too much in Central America. However, the percentages on that side of the question in El Salvador and Honduras were relatively small.

The same study found that perceptions of Nicaragua, Cuba and the Soviet Union were predominantly negative. I was particularly struck by the very large percentage of respondents in Honduras who found Nicaragua under the Sandinistas to be both a subversive and military threat. These were fears the Com-

mission encountered over wide spectrum in that country and emphasized in our report.

Other polling data supports the general conclusions emerging from the USIA survey:

A poll of 2,000 Salvadorans, carried out by a Venezuelan organization in May 1983, reported that 89 percent of the respondents gave the United States a highly favorable rating. The favorable rating in Costa Rica was 87 percent, while Nicaragua was seen in a positive light by only 16 percent and the Soviet Union by only 9 percent. Over 80 percent favored U.S. economic aid. Over 70 percent said that an increase in U.S. military aid was necessary, with approximately 25 percent opposed.

In Honduras, Gaitner International studied public opinion in November-December 1982. Attitudes were highly positive toward the United States and extremely negative toward the Soviet Union, Cuba and Nicaragua. Ninety-three percent believed Honduras should accept U.S. economic assistance, and 83 percent that it should accept military aid. Almost nine out of ten believed that Nicaragua was trying to harm their country. Eight out of ten thought that Cuba dominated Nicaragua and believed not only that the Nicaraguan people lived badly, but also that they were worse off than before the revolution.

I should also like to add a comment on the actual increase in direct U.S. Government spending that would derive from our recommendations on economic assistance. About 25 to 30 percent of the \$8 billion is expected to come from off-budget guarantees, leaving only about \$5.6 to \$6 billion in budget appropriations. On the basis of current aid levels with allowance for inflation, one can project a five-year program of \$3.2 billion. We are thus calling for an increase in direct spending over that projected level of \$2.4 to \$2.8 billion, or \$480 to \$500 million annually.

With best regards,

Sincerely,

HENRY A. KISSINGER.

*Public Opinion in Four Central American Countries, Public Opinion Survey—January 1984, Office of Research, United States Information Agency R-1-84*

IMAGE OF THE UNITED STATES<sup>1</sup>

	Percent
Favorable general opinion of the United States :	
Tegucigalpa-San Pedro Sula-----	94
San Jose-----	88
San Salvador-----	82
Guatemala -----	78
Helps solve economic problems :	
Tegucigalpa-San Pedro Sula-----	93
San Jose-----	87
San Salvador-----	82
Guatemala -----	60
Stabilizes our government :	
Tegucigalpa-San Pedro Sula-----	90
San Salvador-----	81
San Jose-----	70
Guatemala -----	57
Interferes too much in Central America :	
Guatemala -----	53
San Jose-----	42
San Salvador-----	22
Tegucigalpa-San Pedro Sula-----	19
Destabilizes our government :	
San Jose-----	6
San Salvador-----	5
Guatemala -----	4
Tegucigalpa-San Pedro Sula-----	2
Is a military threat :	
San Salvador-----	10
San Jose-----	7
Guatemala -----	5
Tegucigalpa-San Pedro Sula-----	1

Footnotes at end of table.

IMAGE OF CUBA<sup>2</sup>

	Percent
Favorable general opinion of Cuba :	
San Jose-----	15
Guatemala -----	12
San Salvador-----	7
Tegucigalpa-San Pedro Sula-----	4
Helps solve economic problems :	
San Jose-----	(3)
Guatemala -----	(3)
San Salvador-----	(3)
Tegucigalpa-San Pedro Sula-----	(3)
Stabilizes our government :	
San Jose-----	(4)
Guatemala -----	(4)
San Salvador-----	(4)
Tegucigalpa-San Pedro Sula-----	(4)
Interferes too much in Central America :	
Tegucigalpa-San Pedro Sula-----	50
San Jose-----	48
Guatemala -----	36
San Salvador-----	22
Destabilizes our government :	
Guatemala -----	41
San Salvador-----	39
Tegucigalpa-San Pedro Sula-----	36
San Jose-----	31
Is a military threat :	
Guatemala -----	42
Tegucigalpa-San Pedro Sula-----	38
San Salvador-----	37
San Jose-----	37

IMAGE OF NICARAGUA<sup>5</sup>

Favorable general opinion of Nicaragua :	
Guatemala -----	22
San Jose-----	19
Tegucigalpa-San Pedro Sula-----	12
San Salvador-----	9
Helps solve economic problems :	
San Jose-----	(6)
Guatemala -----	(6)
San Salvador-----	(6)
Tegucigalpa-San Pedro Sula-----	(6)
Stabilizes our government :	
San Jose-----	(3)
Guatemala -----	(3)
San Salvador-----	(3)
Tegucigalpa-San Pedro Sula-----	(3)
Interferes too much in Central America :	
San Jose-----	23
Tegucigalpa-San Pedro Sula-----	14
San Salvador-----	11
Guatemala -----	6
Destabilizes our government :	
Tegucigalpa-San Pedro Sula-----	79
San Jose-----	55
San Salvador-----	40
Guatemala -----	24
Is a military threat :	
Tegucigalpa-San Pedro Sula-----	80
San Jose-----	69
San Salvador-----	45
Guatemala -----	29

Footnotes at end of table.

IMAGE OF SOVIET UNION<sup>7</sup>

	Percent
Favorable general opinion of the Soviet Union :	
San Jose	32
San Salvador	10
Tegucigalpa-San Pedro Sula	8
Guatemala	7
Helps solve economic problems :	
Tegucigalpa-San Pedro Sula	(3)
Guatemala	(3)
San Jose	(3)
San Salvador	(3)
Stabilizes our government :	
San Jose	(3)
Guatemala	(3)
San Salvador	(3)
Tegucigalpa-San Pedro Sula	(3)
Interferes too much in Central America :	
Tegucigalpa-San Pedro Sula	40
San Jose	35
San Salvador	22
Guatemala	20
Destabilizes our government :	
San Salvador	24
San Jose	16
Guatemala	13
Tegucigalpa-San Pedro Sula	9
Is a military threat :	
San Jose	24
San Salvador	24
Guatemala	18
Tegucigalpa-San Pedro Sula	14

<sup>1</sup> Percent in each country describing United States in these terms.

<sup>2</sup> Percent in each country describing Cuba in these terms.

<sup>3</sup> One percent or less in all countries.

<sup>4</sup> Less than half of 1 percent in all countries.

<sup>5</sup> Percent in each country describing Nicaragua in these terms.

<sup>6</sup> Less than half of 1 percent for all 4 countries.

<sup>7</sup> Percent in each country describing Soviet Union in these terms.

Mr. DIAZ-ALEJANDRO. Thank you, Senators, for the opportunity to be here. I just want to make four quick points.

First, the nature of the economic and social program we recommend. It should be viewed, if you will, as a contract in which the United States would commit greater flows of economic aid, but the Central American republics would commit themselves to a number of measures, measures to promote and reactivate economic growth, including measures to stimulate a free market and a healthy private sector. But growth will not be enough. They grew in the 1950's and 1960's, yet they got into the problems we know today.

We also advocate policies that will yield growth with equity. Important income distribution measures will have to be taken. We advocate measures in which the growth will also be accompanied by a democratization of those societies; and we also advocate measures that growth will go with security. So it is implicit that the Central American republics will have to take important economic reform measures in a number of fields.

Now, as to the U.S. role and the question of the economic magnitudes—how did we arrive at the \$8 billion figure? In a fairly straightforward macroeconomic balance of payments projection methodology with all of the virtues and defects of that methodology.

As you know, we economists are no prophets. We have to, when making those projections, consider a number of parameters of the international economy, the number of parameters on the local economy, including the previous point of what the countries will do themselves, and specifically what kind of targets you have.

I think the Chairman of our Commission has already mentioned that the targets are reasonably modest when viewed in historical perspective. We are hoping those countries will get by 1990 to the per capita levels they had in 1980.

I would emphasize one additional point; that implicit in our forecast is that by the end of the decade these economies will be growing at 3 percent per capita. That is really the minimum you can hope for solving the very serious unemployment problem which right now is one of the most pressing issues in those countries, and why so many of the young people there seem to find employment either only as guerrillas or in the army.

So these are very modest targets. The numbers compared with the magnitude of the problem would seem to be just about the minimum necessary to achieve something like this. Cutting them back risks not doing much to solve the unemployment, the poverty problems and so on that the region has.

Can this money be profitably used? A question of absorptive capacity. There one has to go back to the vision of the program. If the economic reforms are adopted, if the social programs are implemented, if peace is achieved in the region, yes, we firmly believe that then the money could be profitably invested, but subject to all these other reforms being carried out and subject to comprehensive monitoring.

I would add one more thing to the absorptive capacity question. Beyond the macro level, that is the macro projections, you must look at the existing institutions in Central America. Although they are not always the best, impressive economic development institutions have built up in the last 20 years which today are working below capacity, not because they lack projects, not because they lack competent people, but because they lack the money.

To give you one specific example, the Central American Bank for Economic Integration, which most observers regard as a fine institution, has shelved some projects which in some cases they developed together with the Inter-American Bank which could be activated by greater flows.

So my answer to the absorptive capacity question is yes, if these reforms are implemented.

Finally, just to emphasize what our chairman said about the Central American Development Organization, just one more point on that. It is a symbol of the commitment of the United States that this time the interest in Latin America or in Central America is not going to be just a 1 or 2 year thing; that this time the United States is there to stay for at least, as we suggest, 5 years and perhaps more, because the problems are very serious, and we want to put across the point to Central Americans that it will not be a fleeting thing like in the past. This time it has to be there to stay.

Thank you.

Mr. KISSINGER. Now, Mr. Chairman, with your permission, if I could call on two members of our Commission who speak without an accent. [Laughter.]

Senator Brady first, and then Mr. Kirkland.

Senator BRADY. Thank you, Mr. Chairman. I will try and keep my remarks short. I will not deliver the 5 minutes of laudatory remarks the staff gave me to make about the chairman; but I would like to make three observations and state one principle that has guided me in my thinking.

First of all, there is not any question in my mind that the problems in Central America are rooted in economic deprivation and suffering, and to some extent, maybe to a large extent, in social injustice.

Second, what the Commission thought and what we wrote is not so much a question of what we think as what we were told by the people that we talked to in Central America. We discovered an attitude which is entirely different than the one that we thought prevailed when we went down there. And I think the people on the Commission who had more previous experience in Central America than I were totally surprised by how little "Yankee Go Home" we actually heard when we were there. In fact, according to those people, there was a 180° change of attitude over the last 2 or 3 years. The people were grateful for our presence and were looking forward to what the United States might be able to do by way of solution.

We were welcomed, and the Commission's report, I assure you, was based on what we were told, not what we thought before we started.

Third, I think another important point to make is one that Secretary Kissinger has made already: We are playing in a vastly different ball game than in the past because of the hooking up of Soviet-Cuban aid, military and economic, with leftist regimes in that area. It is simply different.

In the past the administrations in Central America, and in fact all of Latin America, swung routinely from the left to the right, and this was considered normal. But now we have a new problem. What happens when you link up the interests of the Soviets and the Cubans with a swing to the left in that area? It is a fact of life we have to deal with; it is something new; and perhaps it calls for a new and drastic policy.

But I would leave with you one principle that has guided me and I think other members of the Commission, and it is simply this: Our foreign policy in Central America should be strongly influenced by one thought—we should never be asked the question "Will we have to commit American troops in Central America?"

Our policy in Central America should be guided, formed, and put together with the idea that we do not want to be asked that question. And I submit to you that if El Salvador falls—this may sound like the domino theory—but if El Salvador falls, it will not be very long before we are being asked the question about another country. Pick Guatemala or Costa Rica. You can have your choice.

I think the Commission's thinking was, and I think our policy should be, formulated to avoid finding ourselves in the position where we are asked if we are going to put our troops into Central America. Let us take a situation that is not perfect, with some things that we do not like—all of the injustices, death squads—and we should look at them,

but let us also face the hard realities and let us make sure we never get asked the question of whether the situation is going to become so serious that we have no alternative but to commit troops.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

May I just say this? Mr. Chairman, there could not be any former Member of the Senate who was here such a short time that gained such respect on both sides of the aisle than Senator Brady; and I think certainly on the Commission he has been of invaluable help to the Commission and to his former colleagues as well.

Thank you.

Mr. Kirkland, I know that the AFL-CIO has dealt in the Central American area in the social, economic, political aspects of it for many years. You came on the Commission with a fine background.

Mr. KIRKLAND. Mr. Chairman, I have read, heard, and received in my hate mail, characterizations of this Commission's report that bear very little resemblance to its actual contents; and I would like to make just two or three explicit points that I think need to be emphasized.

First, the strong emphasis of this report is on economic, political, and social assistance and reform, and not on military measures or on the security aspects. Throughout the report the security aspects are coordinated and made contingent upon prior demonstrated steps in the economic, political, and social area. And anyone who reads this report fairly would have to acknowledge that beyond dispute.

We were instructed specifically to consider among other aspects of the Central American problem the security aspects. We fulfilled that instruction as faithfully and as honestly and as realistically as we knew how. And I want to assure you this Commission received and considered proposals and recommendations far more sweeping and extensive in the security area than those that are contained in fact in this report.

Second, this report contains a strong emphasis on the desirability and a strong preference for the resolution of conflicts through negotiations and by diplomatic means, and in fact, goes to some length to explore and to describe possible approaches and bases upon which those negotiations and diplomatic approaches might be carried out.

There is no question whatever that this report strongly declares a preference for these kinds of resolutions of these problems and urges that they be pursued as forcefully and as vigorously as possible.

Furthermore, the proposals for diplomatic approaches contained in this Commission report are not only consistent with but are drawn from and are supportive of the principles of the Contadora documents and the views of the Contadora countries as those have been set forth in the 21 points and as we heard them in our conversations with top officials of the Contadora countries, and I assure you that the outlined bases for our resolution, for example, of our concerns about Nicaragua through the pursuit of an agreement, a negotiated settlement, do not go beyond the minimum criteria described to us by the most eminent leaders of the Contadora countries.

Finally, there is conditionalism throughout this document. Access to economic aid, access to participation in the proposed Central American Development Organization requires that a participating country go through a human rights door and commit itself to the fulfillment of human rights objectives, democratization, the rule of law, et cetera. And military aid to El Salvador and Guatemala and to any other coun-

try, in my view, are conditioned even more explicitly and more strictly and require—and I quote the phrase—"demonstrated progress," not promised progress but demonstrated progress.

And we say that those criteria ought to be seriously enforced.

I believe that the recommendations put forward in this report, if followed by the Congress and supported by the Congress, clearly place the United States of America on the side of the democratic forces in that region, working in their behalf, as against the forces of the murderous right and the totalitarian left, and that is where we should be. Unfortunately, it cannot be done on the cheap.

One final point. I have heard it said, and I have read the views expressed by both conservatives and liberals, the notion that somehow it is improper of the United States to put forward its views and its positions with any force and vigor in that region with regard to the democratic structure or to the human rights records of these countries because it is a different culture with a different history and we should not seek to impose those values.

I simply want to note that there are many people in Central America who have been and are today exposing themselves to far greater personal sacrifice and physical danger than anything anyone in this country has ever had to face for the sake of the hope of a chance of getting a degree of democracy and some semblance of human rights.

I would like to read into the record, if I may—I just received it—a message that was sent to me, signed unanimously by all of the officers of the trade union confederations of each of the Central American countries with which we are concerned. They are meeting currently in Panama, and they sent me this message, and I would like to read the English translation that I just received.

We have carefully studied the report of the National Bipartisan Commission on Central America, and we are pleased that the Commission has clearly recognized that in our region economic growth, social reform, and democratic political development are intimately linked.

We vigorously support the Commission's suggestion that United States aid be linked to specific evaluation procedures on progress achieved by Central American governments as foreseen by the formation of the Central American Development Organization [CADO] with regard to social and political reforms, and that such evaluation is to be implemented by an international organization composed principally by representatives of the workers, employers, peasants and cooperative sectors of the United States and the Central American countries.

This relationship emphasizing the role of the private sector in the evaluation procedure is crucial to the success of the development programs in our region. With the help of programs of purely technical and economic assistance originating in the United States during the 1970's, we only achieved indices of economic growth that were not enough to satisfy the needs of the people. Social and political injustices were not taken into consideration. This has led, as a result, to the violence that today afflicts our region.

We believe the AFL-CIO deserves credit for its effort on the National Bipartisan Commission. We believe the Commission report deserves attention, and we urgently request the AFL-CIO to work actively within the United States to assure that the economic and social recommendations contained in the report are brought about in its full magnitude and dimensions. We also believe that this is particularly true with reference to the role of the popular groups in the planning and monitoring of a global effort of economic, social and political development.

Ricardo Monterrey, Sec. Gen. CTRP (Panama); Victor Artiles, Sec. Gen. CTH (Honduras); Ivan Alfaro, Sec. Gen. CUSG (Guatemala); Eduardo Iriar, Asst. Sec. Gen. CTN (Costa Rica); Samuel Maldonado, Sec. Gen. UCS (El Salvador); Alvin Guthrie, Sec. Gen. CUS (Nicaragua); Luis Armando Gutierrez, Pres. CCTD (Costa Rica).

The CHAIRMAN. Thank you very much, Mr. Kirkland.  
Are you ready for questions, Secretary Kissinger?

Mr. KISSINGER. Yes, sir.

The CHAIRMAN. For the benefit of just dividing up the number of Senators we have and the amount of time we have until 1 o'clock, I would suggest we go in a 7-minute segment, and then, if we have any time, we will yield to Senators that have followup questions. It would be helpful to make the questions and answers as concise as possible so we can cover as many questions as possible. We will leave the record open for 1 week so that you can expand on any of the questions that you want to amplify on.

First, I would like to ask each member of the Commission present today whether or not you are familiar enough with the legislative package that is being prepared by the Reagan administration to have determined yet whether or not in principle you support that and feel that it is reflective of the recommendations of the Commission.

Secretary Kissinger.

Mr. KISSINGER. The legislative package as I saw it on Friday, and as I understand it, has been amended over the weekend, I think reflects the major recommendations of this Commission, and I would be prepared to support it.

The CHAIRMAN. Senator Brady?

Senator BRADY. I agree.

The CHAIRMAN. Mr. Kirkland?

Mr. KIRKLAND. I would like to see the detailed language and examine it, Senator. There were certain aspects of the package that I had discussed with the administration about fully funding the Central American Development Organization. Also, if what I understand to be true is true, I think I would part company on their formulation of the conditionality clause of the Commission's recommendation.

I believe the intent of the Commission was to put into effect certification procedures such as the ones that existed in the past, and that would be the approach that I would support.

The CHAIRMAN. We will leave the record open to see that you do have time to reflect on that, and if you care to then further comment at this point in the record, we will see that that possibility exists.

Mr. KIRKLAND. I would like to be able to testify on the actual legislation.

The CHAIRMAN. Professor?

Mr. DIAZ-ALEJANDRO. I have been teaching and seeing students, Senator, so I have not had a chance to look at the package.

The CHAIRMAN. I would request the staff to see that the legislative package is made available to all members of the Commission and that we leave the record open so that we can have their comments, which would be helpful to the committee.

Secretary Kissinger, in your report you indicated a sense of urgency, and I mentioned that in my opening comments.

Could you describe to the committee what would be the consequences in the region if the recommendations of the Commission were not implemented and carried out by the Congress?

Mr. KISSINGER. First I would like to emphasize also what Senator Brady has said. Our recommendations were based on extensive conversations with leaders in Central America, and we were surprised, at least at the sense they have that they are at a watershed. If these recommen-

dations are not carried out in the economic and social programs, a sense of hopelessness and drift will continue in the area.

If they are not carried out in the political and security field, I think we might find ourselves with a situation where for the first time in our national history the western hemisphere itself becomes a security and political problem for the United States, bringing about a revolution in our foreign policy with respect to Europe, Asia, and other parts of the world.

So in country after country we had the sense of a critical moment in which the role the United States plays will probably be the decisive factor.

The CHAIRMAN. Mr. Kirkland, I want to anticipate one of our witnesses tomorrow who describes the Alliance for Progress as a failure in Central America. One of our public witnesses tomorrow will testify before the committee and argue that the alliance actually polarized Central America.

Would you care to comment on what the difference is between Central America today that may make economic development more feasible than it was 20 years ago, or perhaps you disagree with the conclusion that has been reached.

Mr. KIRKLAND. I disagree with that conclusion, sir. I believe the Alliance for Progress made contributions that are lasting and are real in that area. It was not pursued long enough and vigorously enough, and we went through another of those long periods of total inattention to the region which I think is part of our problem.

Our concern about the region has tended to be episodic and short-lived, and I think that is probably one of the key problems. There are institutions and operations that were initiated during the period of the Alliance for Progress, that grew out of the Alliance for Progress that are still in being, that are still doing, I think, fine work, including our own American Institute for Free Labor Development which continues to function. It was initiated in part, as a consequence of the Alliance for Progress.

On the recommendation to us by the Kennedy administration, we undertook that commitment, and we have carried it out, and I think it has been an extraordinarily successful undertaking in the development and training of democratic trade unionists in that region without which, I think, we would be in far deeper trouble than we are today.

The CHAIRMAN. Professor Diaz-Alejandro, in the opening statement that Dr. Kissinger made, it was argued that the situation in Central America affects the national interests and national security interests of the United States. Yet there is not total agreement on this point. Some argue that the United States has little security interest in the region. I disagree with them, but they argue that way, or that the current political unrest there does not affect U.S. security interests.

Can you clarify the U.S. security interests in the Central American situation as you see it today?

Mr. DIAZ-ALEJANDRO. My perception of it, Mr. Chairman, is as follows. I think that one can construct a number of what I would call low probability but high risk scenarios which, looking down several years, could lead to problems for U.S. security.

My own view is that no prudent U.S. policymaker can afford to neglect them completely. One may agree about the probability being

very low to low, but I have become convinced that those scenarios with low probability but high risk must be taken seriously.

The CHAIRMAN. Thank you very much.

Finally, Senator Brady, critics—and we will have critics tomorrow of U.S. policy toward Nicaragua, indicating that our policy is much too harsh toward them.

I wonder if you could share with us the feelings regarding Nicaragua expressed by other countries in the region, Costa Rica, Honduras, or the Contadora countries, for example, or your own personal views.

Senator BRADY. Senator, I think if you had to summarize the various conversations we had with people in all of the countries in Central America about Nicaragua, it would be one of apprehension and fear of what are the Nicaraguans going to do with the huge military forces that they have built up?

As Secretary Kissinger said, we went to Central America thinking that the object of our concern should be El Salvador, primarily, and I think we soon changed to feel that the object of our concern should be what should we do about Nicaragua. I can only give you what we heard, which was deep concern over the military buildup, and where does it go from here? What is the purpose of it?

The CHAIRMAN. Thank you very much.

Senator PELL.

Senator PELL. Thank you, Mr. Chairman.

Your report, Dr. Kissinger, recommends a program of 10,000 government sponsored scholarships for students in Central America. Yet the President's fiscal year 1985 budget requests a level \$18 million below the level earmarked for these programs by Congress.

Do you think this recommendation is realistic? It is a good recommendation, but do you really believe the administration will follow through?

Mr. KISSINGER. One of the arguments that we heard in country after country traveling through Central America was the fact that thousands of their young people are going to Cuba and the Soviet Union to study. For the first time in history more Central Americans are studying and training in the U.S.S.R., Eastern Europe, and Cuba than in the United States.

In 1982 between 8,900 and 9,400 Central Americans were studying and training in the U.S.S.R., Eastern Europe, and Cuba compared to about 7,600 enrolled at U.S. institutions. Whereas all students in Communist countries possess government scholarships, only 500 U.S. Government scholarships were available.

In country after country we were told that this would over a period of time create such an ideological imbalance among those who would have to enter public service and key private sector institutions, that this was a recommendation that was unanimously made to us in each of the Central American countries.

I did not cost out the 1985 budget and whether our recommendation, can be fulfilled within it. If not, I would strongly recommend that steps be taken to make it possible to realize our recommendation.

Senator PELL. I hope very much you are correct because it is my amendment that has proposed doubling the present exchange program, and the administration has fought like a steer to prevent implementation of that. I wish you success in this effort.

The Commission also advocated continued support to the right wing terrorists, the Contras, operating in Honduras against Nicaragua, while as you know, many of us considered covert activity counterproductive.

Could you enlarge on your views why we should engage in the various activities that we deplore in other countries?

**MR. KISSINGER.** Let me answer in two parts.

First, let me explain what the Commission actually said, and then I would like to make a personal comment which is not necessarily a Commission comment.

We did not deal with the Contra issue as such because it is very difficult in a public document to deal with what are called covert operations, and to assert something as governmental policy which has not been dealt with in that context.

What we said in the report was that the Commission believed that the individual views of the members of the Commission were that existing pressures, which we would say would include the Contras, should not be lifted except in the context of a negotiated solution. In practice, this meant that there were two of our Commissioners dissenting on the Contra question and 10 of the remaining Commissioners share that view within the context of negotiations.

If I might make one personal comment, if you will forgive me, Senator, it is this. I would say that the phrase "right wing terrorist Contras" is in itself an indication of how the public debate gets skewed. If they were called freedom fighters, for example, one would take a different view, and they certainly contain many people who think that the revolution has been betrayed by the Sandinistas.

But I want to stress that the Commission as such did not take a comprehensive view of the Contra issue. It addressed only the limited question of whether now that they exist they should be abandoned prior to a negotiation from which all parties participating in the conflict would then presumably have the right to participate in the electoral processes we have recommended.

**SENATOR PELL.** I would agree with you, too, Dr. Kissinger, that one country's freedom fighter very often is thought of by a neighboring country as a terrorist. It just depends which side of the mirror you are looking at.

Finally, I am sure you are familiar with the statement that Secretary General Mora of the Communist Party in Costa Rica worked out with the Cubans as described in this week's New Republic. It quotes the memorandum to be saying specifically:

That the Caribbean area is of vital interest to the United States . . . but we cannot accept the means which have been used in the past, nor those being used at present to secure this control.

It is in the interest of neither the Soviet Union nor Cuba to sabotage the security of the United States in the Caribbean area . . . nor to establish military bases in that area . . . of this I am sure.

The Soviet Union has an obligation to help toward world peace and this they will not obtain by meddling, directly or indirectly, in an area which the United States considers vital to its security. . . .

I was curious what your reaction was to this acceptance of U.S. interest in that part of the world, and do you think there is any possibility of following this up?

Mr. KISSINGER. First, about this particular incident, one has to be careful about considering diplomacy as if it were a detective story in which one side throws out vague clues and we have to guess at the answer, at what they mean.

Here is a private citizen who appears accompanied by the editor of the New Republic with a letter which he says was worked out by the head of the Communist Party in Costa Rica with the Cubans. He presents it to me in a restaurant and says from there he is going to go to the New York Times and discuss it with the editors.

Senator BIDEN. Did he pick up the check?

Mr. KISSINGER. No; I picked up the check, I regret to tell you. [General laughter.]

I took the letter—in fact, I was accompanied by Professor Diaz-Alejandro. I took the letter to the State Department. I said our Commission was not a negotiating commission. Their analysis was that what we heard through this channel was about 6 months behind what we were hearing in other channels.

Now, of course, I would take seriously a statement that our security interests were being respected. But there must be a better way of doing it than to send it from Cuba to the head of the Communist Party of Costa Rica who then goes to a private individual and who then comes up here and sees a group of newsmen before he sees me, and then when you analyze the letter you find that we have had more concrete information in other channels. But we took the position that our Commission was not a negotiating Commission, so all of this material we turned over automatically to the State Department for its consideration.

Senator PELL. My time has expired. Thank you very much.

The CHAIRMAN. Thank you, Senator Pell.

Senator HELMS.

Senator HELMS. Mr. Chairman, I will not take the 7 minutes. I think the scenario that you have just discussed is instructive about how sincere the other side is in wanting to work out something.

You are not here, as I understood your response to Senator Percy, to advocate or testify on behalf of the specific bill that the administration is sending up.

Mr. KISSINGER. That is correct. I am here to testify about the content of our report.

Senator HELMS. But you are aware of the contents of the legislation?

Mr. KISSINGER. Yes; as it stood on Friday and as I have been told orally it has been modified since then.

Senator HELMS. Are you aware that this legislation would abrogate a provision of law which I sponsored 4 years ago which is a part of the existing legislation concerning El Salvador, that being a prohibition of the use of U.S. tax funds to remunerate those whose lands were seized by the revolutionary junta in El Salvador in March 1980?

Are you aware that is in the bill?

Mr. KISSINGER. I am aware of this, Senator, and of course, I am not here to testify about every last provision in the bill. I do not know whether you have had a chance to see the language in our report. In our report on page 58 we recommend that land reform should provide the new owners with valid titles and that governments promptly allocate

resources as they become available to assure that former owners are effectively compensated. But we did not make a judgment as to where these resources should come from, so we did not specifically address your issue.

**Senator HELMS.** I guess what I am doing, Dr. Kissinger, is trying to learn for my own satisfaction whether you think that such funds—U.S. funds—should be used for such compensation.

**Mr. KISSINGER.** I must tell you, Senator, I had not studied the land-reform problem to any extent before I joined this Commission, and it was not even then the principal focus of my attention. I feel that if certain land-reform programs are carried out in an expropriatory manner, that they have a tendency to promote civil conflict in the society, and that, therefore, I favor compensation for the owners.

I suppose if I were put up against it I would favor, if necessary, the use of government funds, but it is not an issue on which I have sufficiently strong convictions to go much beyond what we have said in this report.

**Senator HELMS.** Let me talk to you about that a little later.

**Mr. KISSINGER.** I really am not prepared to go beyond this at this point.

**Senator HELMS.** All right.

When Secretary Shultz was here for his confirmation hearings, he stated that he did not believe that nationalized banks were a good idea. I think those were pretty much his exact words.

Now, of course, El Salvador's banks were nationalized in 1980, and they are still nationalized, and so is the export market for major commodities in El Salvador.

Now, do you agree with Secretary Shultz about nationalized banks?

**Mr. KISSINGER.** I believe that the record of successful developing countries shows, as I said before, that those countries were most successful that gave the greatest scope to the market, and those were least successful that tried to run everything with central control, so that again, my instinct would be against nationalizing banks.

On the other hand, I do not know enough, frankly, about the conditions existing in El Salvador in 1980 to make that a flat statement.

**Senator HELMS.** But you know what is going on there now.

**Mr. KISSINGER.** I believe it would be desirable to give the greatest scope possible to the private sector and to reduce to the greatest extent possible governmental controls, keeping in mind, however, that in the middle of a civil war that objective is very difficult to achieve.

**Senator HELMS.** Do you see the point I am trying to make? I sense from what you have said—and maybe some others would have a different impression—that no real consideration was given by the Commission to the problems caused by the nationalized banks and the nationalized commodity exports.

Did you just decide that that was something for tomorrow to consider?

What was the priority given such aspects as this when you drafted your report?

**Mr. KISSINGER.** We had a paper submitted to us by the editor of the London Economist that made a very eloquent statement for the position that I have outlined of the importance of the private sector. I

suppose we analyzed what we thought was possible within the next 5 years, given the circumstances that now exist there, and we thought that the priorities had to be given to the programs that we have outlined.

Carlos, would you like to expand on this?

Mr. DIAZ-ALEJANDRO. Perhaps, Senator, may I add that we were conscious of some of these problems, but we were also conscious that we could not write a specific development plan for each country in the region, much less to go into great details as to policy. So many of those issues we thought, although we may like them or not, we could not sit down and tell the countries exactly what to do.

Senator HELMS. Professor, I am not debating with you or with Secretary Kissinger, but we are not talking about individual countries. We are talking about a philosophy, a principle which we say in this country we believe in, and we do not believe in nationalized banks, we do not believe in nationalized exports, and yet I sense that this Commission is saying let's go ahead with that sort of thing.

Mr. KISSINGER. No, I think, Senator, the correct statement would be that our Commission did not really address that issue. I have expressed my personal view, which would be very sympathetic to restoring conditions of market economy as rapidly as it is possible in all of those countries. So I personally would have no problem with this. But we did not as a commission systematically address it country by country.

Senator HELMS. But you are saying, then, that you did not give it a very high priority in drafting the report.

Mr. KISSINGER. We were faced with a massively deteriorating economic and social situation and a very complicated security situation, and we addressed those overall issues that we thought needed the most urgent attention to get a 5-year program launched.

Senator HELMS. Well, of course you were, but the point I am making is that some of the complications were caused by the things—

Mr. KISSINGER. Senator, in a 4-month period we did not have time to go into the economic policies of each of the countries, of the seven countries that we considered eligible for this economic program, so we had to do it in gross terms.

Senator HELMS. Mr. Chairman, my time is up.

Senator BIDEN. You can have some of mine.

Senator HELMS. I do not know whether you saw the story in the Wall Street Journal this morning.

Mr. KISSINGER. I did.

Senator HELMS. I think it ought to be made a part of the record at this point as an illustration.

The CHAIRMAN. Without objection, it will be included in the record.  
[The article referred to follows:]

[From the Wall Street Journal, Feb. 7, 1984]

**DIMINISHING RETURN—CAN CENTRAL AMERICA ABSORB MORE U.S. AID? MANY EXPERTS SAY NO—BUREAUCRATIC TANGLES DELAY MANY PROJECTS ALREADY; CORRUPTION MAY INCREASE—LESSON IN HONDURAN SCHOOLS**

(By Art Pine)

EL PORVENIR, Honduras.—In this poor cluster of adobe houses along a dirt road, a new, orange-brick school symbolizes hope. But inside the building, the hope dims.

The three classrooms stand empty—no books, no desks. For the past eight months, 85 elementary-school pupils have sat on a concrete floor for their lessons. A wall plaque announces that the school was built by the Honduran government “with financial assistance from the people of the United States.” So, Jose Hernandez, the father of a first grader, greets an American visitor with a hopeful question: “Are you the people who are going to approve the furniture?”

Mr. Hernandez may be forgiven his impatience. In 1980, the U.S. Agency for International Development set out to build 2,100 classrooms in Honduras. So far, only about 300 have been built, and they lack books and furniture. Of the \$15.3 million that AID allocated to the project, just \$2.1 million has been spent.

#### BUREAUCRATIC ILLS

The delay reflects the inefficiency of a local bureaucracy rife with politics—and with procrastination, confusion and corruption. The Honduran government took two years just to approve simple school-desk designs. Then, work on the school project stopped for a while after a political reshuffling discombobulated the Education Ministry. Moreover, all government contracts—even for an order of cement—must be signed by the Honduran president, a process that often takes months.

As a result of such problems, the ability of Honduras—and of other Central American nations—to absorb American aid is limited. And now that the Reagan administration is advocating a vast expansion of aid to fight poverty, promote democracy and defeat communism in the region, even Central American officials, while wanting more help, admit that the U.S. may deluge them with too much money too soon.

“These are very large amounts of money we’re talking about—far beyond what we’ve received before,” says Frederico Vargas, the finance minister in Costa Rica, the most economically advanced nation in the region. “Questions of how much can be used fruitfully frequently creep into our minds. If this is true in Costa Rica, it’s even more true in other countries.”

#### SURGE IN AID

Arturo Corleto, the Honduran finance minister, also worries about the effects of a huge increase in aid. “If there is a big inflow from the U.S. or other countries, it seems reasonable there will be more room for corruption,” he warns. “We have to be practical and pragmatic. We don’t have enough people to double our investment every year.”

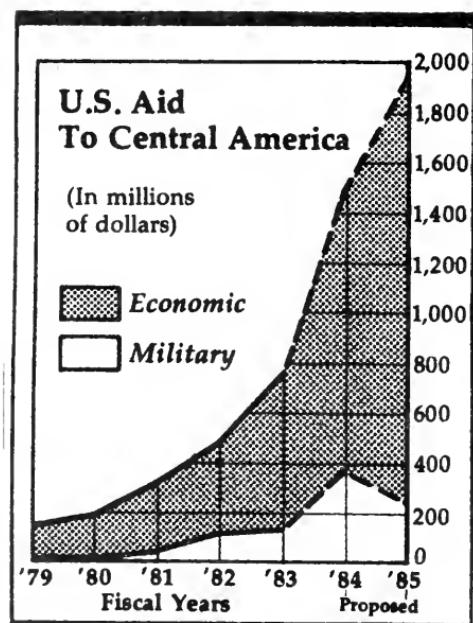
Beginning in 1979, the year of the Marxist revolution in Nicaragua, American aid to the region increased sharply. In fiscal 1979, U.S. economic aid to seven Central American countries totaled \$141.2 million, and military aid \$3.7 million. By fiscal 1983, ended last Sept. 30, economic aid had grown to \$628 million and military assistance to \$126.7 million.

Last month, a bipartisan commission headed by former Secretary of State Henry Kissinger recommended an additional \$400 million in economic aid, on top of the \$430 million approved earlier, for the current fiscal year. And over the next five years, the panel advocated \$8 billion of assistance—double the current annual level. The Reagan administration has embraced the Kissinger proposals, and hearings on them are scheduled to begin today in Congress—where they already have run into criticism.

In Honduras, U.S. aid is already arriving too fast to be spent quickly. Last year, Washington provided \$101 million in nonmilitary aid to the Tegucigalpa government for projects ranging from plumbing to balance-of-payments support. But \$100 million in unspent U.S. money is already backlogged in AID’s Honduras pipeline, some of it going back to projects begun in 1979.

In the six other Central American countries, the logjam of unused aid money totals \$379.1 million, and the problems are similar. El Salvador’s government is better equipped than Honduras’s to handle more aid, but the war there is hobbling development; projects are often destroyed by guerrillas soon after they are built. Aid to Nicaragua has been cut off and that to Guatemala has been sharply reduced for political reasons, and U.S. officials concede that even if it was restored, both countries would have difficulty absorbing it. Belize is in even worse shape than Honduras, while Panama is slightly better off. Costa Rica shows the most promise.

Moreover, the problems are frequently aggravated by the U.S. government. Under current American law, countries receiving U.S. aid must put up one-fourth



Sources: Agency for International Development,  
White House

of each project's cost in "counterpart" funds. Honduras can't meet this requirement. Even now, Washington is allowing Honduras to divert money from U.S. balance-of-payments assistance to come up with its required share of the regular aid program. Other Central American countries have similar problems.

In addition, the U.S. government imposes an intricate system of vouchers and counterchecks—far more stringent than that of other donor countries—in an attempt to hold down waste and theft. But some Hondurans complain that AID's rigid procedures hobble development. "AID is extremely bureaucratic," says Benjamin Villanueva, a former finance minister and now a Tegucigalpa business leader. "It's tough to negotiate with them, and tough to get them to disburse the money."

The snafus in the Honduran school-construction program are just a small sample of those confronting American aid efforts in Honduras and all over Central America.

There isn't any career civil service in Honduras; instead, government jobs—right down to the lowest janitor—are rotated several times in each administration as a way of rewarding party loyalists. The important National Agrarian Institute, for example, has changed its entire technical staff three times in the past two years. A huge agricultural project at Baja Aguan has run through 15 chiefs in the past decade; the last—the only one to make the venture profitable—was sacked in December. Recently, the minister of public works was dismissed because he was from the "wrong" wing of the president's own party.

Corruption keeps siphoning off materials and equipment. A few months ago, a shipment of 200 tons of milk donated by the European Common Market for school-nutrition programs vanished mysteriously. The National Corporation for Investment, another state agency, went bankrupt under a cloud of corruption. The Honduran government is still investigating the disappearance last year of more than 700 tires, some of which may have been bought with U.S. funds.

#### SEEDS OF DELAY

Honduran government procedures themselves frequently block progress. Last year, a requisition for four-wheel-drive vehicles for a U.S.-sponsored aid program was snagged nine months while Honduran officials procrastinated over a simple bill of lading. In other cases, internal regulations can slow things down: An order

for plastic pipe for a critical aqueduct project was delayed for half the year because of Honduran import regulations.

Once a project is built, Hondurans often can't afford to maintain it. Roads and hospitals are built and then routinely allowed to decay. Guillermo Bueso, a Tegucigalpa banker and former chairman of the Honduran central bank, warns: "If you give \$1 million to build a hospital and it costs \$5 million a year to operate and maintain it, you're not helping."

And Honduras has a hard time generating the foreign exchange needed to finance imports and repay its growing debt. Its main exports are timber, meat and "dessert" (the three big cash crops: coffee, sugar and bananas), and they are still drawing rock-bottom prices on the world markets. And much of the hard currency that the country does earn quickly leaves. Reliable estimates indicate that Hondurans hoarded about \$1 billion in U.S. bank accounts in 1980 and 1981, and many Hondurans fly regularly to the U.S. to shop. (The capital-flight estimate for all of Central America is several billion dollars a year—some of which may come out of U.S. balance-of-payments aid to the countries.)

Despite all the problems with the aid programs, no one denies that Honduras—and most other Central American countries—needs help desperately. In Honduras, per-capita income is under \$100 a year, the lowest in the region, and the birthrate is 3.6%, the highest. Rural areas harbor poverty that seems stark even by Third World standards. There is plenty to spend money on: Much of the once-rich forestland in the south has been denuded, the fertile Sula Valley cries out for flood control, and the Comayagua coastal region needs agricultural aid.

In attacking this bewildering array of problems, the U.S. is trying hard to see that aid money is well spent, experts say; most of the projects are well thought out. The U.S. presence here is pervasive. American grants and loans account for almost 30% of the \$350 million in annual development aid that Honduras receives; the other sources are the World Bank and a dozen other institutions and countries. American aid goes primarily for food and "human needs" programs, such as nutrition, education and housing, and for helping Honduras pay for needed imports. Most U.S. aid money is spent in rural areas, where 80% of the population lives, and so the projects tend to be relatively small-scale and undramatic by American standards.

For example, a \$2.5 million rural housing project is giving peasant farmers their first opportunity to borrow money to upgrade their existing homes rather than buy new ones away from their land. Near mountain-ringed Morazan Yoro Yoro, Manuel Ramos has just paid off a \$100 loan that he took out last year to buy weatherproof cement coating for his 1½-room adobe house. "I don't know where I could have gotten the money otherwise," Mr. Ramos says. Now, he is considering a second loan to re-cover the roof and finish the inside.

A \$12.5 million, five-year program is helping farmers secure legal title to their property in hopes that then they will be able to obtain credit to buy fertilizer and some modern equipment. Part of the country's agrarian reform program, the effort has brought deeds to 4,700 squatters; officials hope to help 70,000 within five years.

An AID-financed health program is buying medical care and Litrosol, a salt-and-sugar mixture, to combat dehydration in infants who get dysentery during Honduras's germ-plagued rainy season. Before, Zoila Godoy's clinic in remote La Paz used to count a dozen or more such deaths a year, but now mortality has been cut to zero. "It's fantastic," the doctor exults.

Unexpectedly, one of the most spectacular U.S. aid successes has been installation of easy-to-flush outside toilets to replace the infested pit-latrines of most Honduran villages. Demand for the new toilets is so strong that AID officials have doubled the first phase of the program to 24,000 toilets.

Among other programs under way: \$45 million for housing; \$21.5 million for improving farm-to-market roads; \$20 million for rural water, irrigation and sanitation projects; \$11.5 million for electricity in the Aguan Valley; \$9.6 million to help 60,000 small coffee growers control coffee-fungus; and \$1.8 million to repair electrical substations damaged by terrorists in Tegucigalpa in 1982.

#### SOME SUGGESTIONS

Despite the successes, some Hondurans contend that the U.S. aid money could be better spent. Efrain Diaz, an economist who serves in parliament, believes that aid should be aimed more at producing immediate jobs than at laying the groundwork for future growth.

In addition, Finance Minister Corleto complains that the U.S. hasn't done enough to help Honduras bear the economic costs, such as higher oil-import bills, of its military buildup in the face of Nicaragua's threats. International officials say the Teguigalpa government has begun transferring health and education money to cover the spiraling defense costs.

And Guatama Fonseca, a former labor minister, says he thinks "that to maneuver the aid through the government is counter-productive," as "U.S. aid problems are related to the capacity of bureaucrats here." Some officials say additional aid can be handled through various "supplemental" efforts: bringing in more foreign managers or corporations to run the programs or using the country's own private sector. And even though the private sector isn't very efficient, either, AID is looking for ways to use it and bypass the central government.

Both the Kissinger commission and outside experts urge that the new aid be tied to requirements that the Central American countries make their economies more efficient, by trimming government, broadening tax bases, ending food subsidies, readjusting overvalued currencies, cutting tariffs and transferring state-run companies to private hands.

Some Honduran officials think that their government may take some such steps, but Mario Belot, a wealthy businessman from San Pedro Sula, hints at the domestic pressures that could result. Broadening the tax base is fine, he says, "but not with too much democracy."

And Costa Rica's Finance Minister Vargas sees "a danger that if the U.S. comes in here and says, 'We will give you this if you do this and that,' it could be viewed as an invasion by the U.S. of our affairs."

**Senator HELMS.** Also an article by Tom Bethell in the National Review.

The CHAIRMAN. Without objection.

Thank you, Senator Helms.

[The article referred to follows:]

[From the National Review, Feb. 24, 1984]

#### POLITICAL ECONOMY—LAND GRAB IN EL SALVADOR

(BY TOM BETHELL)

Shortly after the Kissinger Commission issued its report on Central America, Representative Jack Kemp (R., N.Y.) put out a statement noting its "significant recommendations." One of these ran as follows:

"[There should be] a renewed effort in the region to protect the property rights of all citizens. While it is recommended that, where appropriate, land-reform programs should be initiated, the commission is firm in its conviction that prior owners should be fully compensated in a manner which enables them to transfer their rightful share of national wealth into new enterprises. Just as firm was the conviction of the commission that new landowners should be provided immediately with a full and transferable property right to their new land."

The "transferable property right" perhaps sounds as if it is a minor detail. (And it is true you won't find any reference to it in Samuelson's famous textbook, any more than you will find "property rights" in the index.) Nevertheless, we are dealing with what may be the most important idea in economics. Countries that do not have transferable property rights do not really have economies at all. They have military command structures that attempt to pervade all areas of life (as in the Soviet Union). Countries that have enjoyed such rights but abolish them inevitably experience economic collapse.

This has happened in El Salvador, as a result of the "land reform" program that was adopted in 1980, at the United States' behest.

The socialist idea continues to have so much appeal for American intellectuals that the U.S. today is a net exporter of socialism. Our domestic political system is sensitive enough to ensure that its incremental victory at home is extremely difficult—a hard-fought battle, with (today) inches won and lost on the fifty-yard line. But leftist programs encounter little such opposition abroad. The "land reform" program in El Salvador, put into place during the Carter Administration, is as pure an instance of exported socialism as it would be possible to find. Unfortunately, the Reagan Administration continues to support it,

although President Reagan himself, it is believed, may have been kept in the dark about its most noxious feature.

Phase one of the program consisted of the government seizure of all estates of more than 1,235 acres. Thereupon, "cooperatives" of peasants who had been working on this land were allegedly "given" it. But in fact they have not been given it at all. The title to the land, transferred from the old owners at the moment of seizure, has been retained by the government.

Individual members of the new cooperatives do not have the right to sell their share of the land to anyone else. That is, their property right is not real because it is not transferable. People who do not have the right to realize the value of what they own by selling it cannot be said to own it at all. Their status is closer to that of renters. But when property is privately owned and rented, the owners can be expected to keep an eye on their property to ensure that it doesn't deteriorate. Governments, on the other hand, are unable to keep an eye on widely dispersed state property because the task is too complex for a centralized authority. Thus, when property is transferred from individual to state hands, an economy collapses. This has happened in the twentieth century in the Soviet Union, in China, Cuba, and Vietnam, and now in El Salvador, under U.S. auspices.

This problem is so poorly understood among conservatives here that last October the Wall Street Journal editorial page ran an article on land reform by Roy Prosterman, the chief architect of the Salvadoran program. He is a socialist "development specialist" from the University of Washington. His article made no mention of the fact, or the problem, of nontransferability.

If the Federal Government decreed that you could not sell your house, would you really feel that you owned it? You might also reasonably worry about the further dictatorial powers that such a government might assume tomorrow. And what incentive would you have to keep your house in good repair, so that it would be attractive to a buyer? The housing stock would soon decline following such a decree. In the same way, the Salvadoran economy has declined by 30 percent since 1979.

#### WORTHLESS BONDS

Consider briefly the former owners. They have been "paid" with worthless bonds, mere pieces of paper, which do not pay interest and are not redeemable. These people have had everything they worked for seized from them without recompense. They have no stake in the future of their country. "Death squads" should be considered in this light. In some instances the cooperatives have begged the government to permit them to transfer the property back to its former owner. The elected assembly should not only comply with this request. It should pay no further attention to American "development" experts who regard El Salvador as a convenient laboratory for their leftist blueprints.

It is scandalous that this country should have promoted such a program abroad, and that so little attention should have been paid to its socialist features. Congressman Kemp deserves our thanks for bringing it to the notice of the commission. He is at present the only U.S. politician of national stature to have grasped its importance.

The CHAIRMAN. Senator Biden.

Senator MATHIAS. If the Senator from Delaware would yield for a brief comment, I would say to my good friend from North Carolina that there was a good conservative principle which I heard being expressed in connection with questions such as that which you have just raised, and that is the question of local option. Local option was considered to be a very important ingredient of this whole plan.

Senator HELMS. And no local option was given.

Senator MATHIAS. And for us to sit here in Washington and dictate every detail of local economy without option on the part of the people most closely affected would be self-defeating.

I thank the Senator from Delaware.

Senator HELMS. If the Senator will yield.

Senator BIDEN. I will yield. I love to hear you Republicans talk.

**Senator HELMS.** The Senator is overlooking the fact that in the Carter administration, land reform was thrust upon these countries, and particularly in El Salvador. So I am with the Senator's theory. I am just not with his understanding of the history of it.

Thank you.

**The CHAIRMAN.** I would just like to add that certainly two Presidents of El Salvador have come in and said that one of those things that has helped stabilize and give people hope down there has been the land reform.

**Senator Biden.**

**Senator BIDEN.** As tempted as I am to jump into this, I will refrain, and let me in the short 7 minutes we each have to try to ask at least two questions.

Gentlemen, it seems to me that there is an ever-present dilemma in our foreign policy which we all recognize. That is, when our friends do not do what we think they should do for their own survival, it creates problems for us, and the question we then have is how long do we stay on the horse, when do we jump off the horse, not in terms of cutting and running, but if people we are backing are not pursuing a policy that is in their own interests, presumptuous of us, but nonetheless, since we are in a sense footing some of the bill, we should have some input.

In the case of El Salvador, for example, we encouraged elections which in 1982 produced a right-of-center victory and which next month could produce a far right victory, I characterize as far right a d'Aubuisson victory, which I do not consider to be moderate, or which may even lead, according to press reports, if Duarte is to win—a coup is not out of the question in the minds of some people.

You may not be able to answer my question directly, but you might give me, Dr. Kissinger, your thoughts on what happens, since we are dealing in most cases with Hobson's choices down in that region, we do not have any ideal choices to make, it seems to me, should we be thinking in terms of the use of military aid and possibly military involvement not only to thwart the Communist victory, but to possibly, if worst came to worst, to be used against a right wing coup after a democratic election?

Now, that has not occurred, and it may not occur, I hope it will not occur, but I think it is worth us thinking through as policy what we should be thinking about. In other words, how far does that military equation fit in terms of if it swings the other way?

**Mr. KISSINGER.** That is obviously, as you stated yourself, an extremely complicated issue. I think as a fundamental national objective we should understand that when we help a country, we do it—we should be doing it—because it is important to our own interests and not simply as a reward for good behavior.

**Senator BIDEN.** I agree.

**Mr. KISSINGER.** One would prefer if those objectives could coincide, that only the worthy are threatened, and that we can then achieve our national objectives without emotional conflict.

The issue that you raise arises in two ways. One is, if the human rights performance is inadequate, and the second is if it takes the extreme of a totally unpalatable government coming into power.

**Senator BIDEN.** Well, if I may be more specific, if in fact the electoral process which we endorsed, and I would argue pushed, and I am not sure we should have pushed, but nonetheless we are pushing, we are standing fully behind, what happens if it takes place and the result is on the one hand a victory that is unpalatable to the far right, and in turn, there is a military coup? What would that do to our credibility?

**Mr. KISSINGER.** If I were asked in my private capacity—because the Commission did not address this issue—I would oppose the use of American military intervention in El Salvador to undo the consequences of a right-wing coup, but I also believe that it would be extremely difficult in such circumstances to achieve the degree of congressional consensus that is needed to give the requisite military aid to El Salvador, and therefore, I would hope that anybody thinking of the idea of a coup would keep these political realities in the United States in mind.

I would have to add a second thing, however. If, in my view—this is my personal view now, but I think it would be shared by many members of the Commission—if there should be a collapse of El Salvador for whatever reason, even if it is entirely their fault, the consequences in the rest of Central America will be extremely grave, and the risks that the United States might be drawn into a future conflict that grows out of this sequence of events that starts there would be very much heightened. I would consider that to be a fact of life, even if the thing collapses due to no fault of ours.

**Senator BIDEN.** I understand that, and I do not think I disagree with what you have said. I think it is important, though, that we understand that bold action may be required, if it is required at all, on two sides of this equation.

The second point, in the few minutes I have remaining, there is a portion in the report, gentlemen, on page 124—you need not turn to it necessarily—where you talk about Western Europe, and you point out that we have both a confluence of interests and also slightly different interests, and that on occasion European actions, some European government organizations have taken actions inimical to United States and indeed to European security, et cetera, but that there is a growing realization on the part of our European colleagues.

Working with Senator Lugar on the Subcommittee on Europe, I think that is an accurate statement, that the muted criticism is not merely a consequence of an unwillingness to speak out, but that there is a growing realization that there are two sides to the story.

But my question relates to the economic side of the package. You gentlemen talk about CADO and that there are possible other donors.

In your last sentence on page 124 you said we should encourage their—meaning European—economic involvement in the region to help promote political, economic, and social reform, both bilateral and through multilateral institutions.

Are you at this point prepared to expand upon how you believe we should pursue that kind of involvement which I personally think is vitally important and also may ameliorate some of the incredible financial burden that lies upon the United States for what is obviously mostly in our interest, but also in the interest of the Western countries?

MR. KISSINGER. First of all, I would say it is my impression, which I think is shared by all those who took trips with us, that the pressures of some West European countries and political parties, even on Nicaragua, with regard to the inadequacy of their political institutions, have had some beneficial results.

Second, a number of our Commission members, Bob Strauss, myself and others, have had informal consultations with European ambassadors here and with heads of government abroad in Western Europe that would indicate some interest in participating in such a program in a coherent fashion. Again, we had no negotiating responsibilities. Our idea would be that the West European and other countries like Japan and Canada could join CADO in an associate membership. In the figures that were developed the total balance-of-payment deficit we foresee for Central America is \$24 billion. Of this we thought half could come from the United States, the other half from Western Europe, Japan, other donor countries, and international institutions. This was \$24 billion over 7 years.

SENATOR BIDEN. It is an initiative I hope we are able to pursue. I think it is important.

THE CHAIRMAN. Thank you, Senator Biden.

SENATOR BIDEN. Mr. Chairman, I have to go to a steering committee meeting.

I might ask unanimous consent that three other questions that I have be submitted to the panel, and possibly have——

THE CHAIRMAN. Without objection, they will be submitted to the panel.

Thank you.

SENATOR LUGAR.

SENATOR LUGAR. Mr. Chairman, all of the polling data that I have seen in the last year, including figures taken after the Commission's report, indicate that when the American people were asked whether we should give more economic aid to Central America, the answer was "no" by roughly a ratio of two to one. In fact, if asked whether we should be giving any aid at all, the majority of people are opposed.

I mention this because we have already read into the record the Wall Street Journal article this morning which documents that aid already going to Honduras—and that is the country featured in the article—is not being well used, and that there are so many bureaucratic blocks that the trickle through is very slow.

The Wall Street Journal article says:

Both the Kissinger Commission and outside experts urge that new aid be tied to requirements that the Central American countries make their economies more efficient by trimming government, broadening tax bases, ending food subsidies, readjusting overvalued currencies, cutting tariffs, and transferring state run companies to private hands.

There is not great optimism that the countries will do these things. And you have already testified today that we ought to be very careful about the degree to which we enter into those democracies, to effect those changes that might make efficiencies.

Given what appears to be a flow of public opinion which is not very favorable to economic support, quite apart from the military support, what optimism should the American people have that these govern-

ments see the seriousness of the situation or that they can make any or all of these changes that might be effective?

Mr. KISSINGER. Let me say two things, and then I think perhaps Lane Kirkland, whose associates made really seminal contributions to this part of our report, would like to add some comments.

First, with respect to public opinion. Public opinion is formed the way my own opinion was formed, and I am supposed to be an expert on foreign policy. I must tell you, there is no consistent flow of information from the administration, with all due respect, about what is involved in Central America. The question is then what would public opinion be if somebody explained the issues not just once in an important speech, but on a regular basis.

I believe when the public understands the consequences of a collapse of this area, what that would cost us, they would believe that what we are recommending here as a really minimal program would be very cheap. The threat to the Panama Canal, the impact on other countries in the region, the impact on the ability of the United States to relate itself to even a few small, developing countries in the Western Hemisphere, I think these would be very profound consequences.

Second, I have not had a chance to study the article—I have read the article. But what we have to face as fact is that these countries of course have weak governments, and one of the reasons that we are proposing this assistance is that we want to strengthen the infrastructure, the social cohesion.

It will not be difficult at any stage in this process for some sharpshooter to find examples of waste and mismanagement because that is the problem we are trying to solve. We think that with the Central America Development Organization, and other institutions, criteria could be set up by which these problems can be progressively reduced and improved with each year.

But nobody should pretend that we can get Western European standards of performance in countries that even before a civil war did not have the most efficient bureaucracies in the world, and in which building an efficient bureaucracy and efficient institutions is itself part of the purpose of these recommendations.

But maybe, Lane, since your people made so many recommendations in that field—

Mr. KIRKLAND. There is no doubt in my mind that when the question is put in such frank terms, Senator, as to whether the public favors the United States spending large amounts of money overseas, as to what the response is. It has not been popular for a good many years, and it is always difficult to get a strong constituency for foreign aid programs from the public at large.

The organization I represent is one of those constituencies of the public that does support it because within the trade union movement I think the issues are understood and the alternatives are understood. Now people understand that they have an interest and a stake in trying to ameliorate the exploitation and deprivation of working people in other parts of the world who affect our ability to compete by virtue of the fact that they are working close to the level of chattel slavery.

So it is not too difficult to explain to our people as to what is involved and what is at stake, and we have never had difficulty maintaining sup-

port for the level of our involvement in relation with workers' movements around the world and for the expenditure of a substantial part of our resources on that.

So I think it is a matter of how it is presented, what the options are, whether they are presented as well, and not put forward as just an absolute yes or no on one particular aspect of the question.

On what you quoted from the Journal article—and I have not read the article—the report does not condition assistance on those specific points that you mention in that paragraph. There are sections of the report that recommend that countries re-examine their practices and management policies to those particular areas, but from my own personal point of view, sir, I think the values that this country has to sell and promote abroad are human values, human rights, and not selling one particular form of economic organization over another.

I am not nearly as interested in selling free enterprise as I am in selling human decency and human rights and human values.

**Senator LUGAR.** Thank you very much.

**The CHAIRMAN.** Senator Tsongas.

**Senator TSONGAS.** Thank you, Mr. Chairman.

Mr. Chairman, I think the report is well done. We would have differences on particulars, but I think getting a group of people together to fashion a consensus is very difficult, and the Commission should be commended. The recommendations of the Commission, particularly in terms of the monetary implications, are simply not going to pass the Congress. The reason is not so much the number—I mean, \$8 billion is a lot of money, but when you look at our deficit, it hardly shows up on the radar screen.

The problem is that nobody believes that the conditionality which has been spoken to is acceptable to the administration.

Now, we have had 3 years under this administration, and the record is clear that progress in human rights has been certified each and every time, and eventually the certification process itself was vetoed.

Now, what rational, objective observer is going to conclude that all of a sudden the conditionality spoken to in the report is going to become the basis of the policy of the administration? It is not going to be. This is a dual track recommendation you have made, and I agree with it, but we are not going to get a dual track cut of this administration, and for that reason, it is not going to pass.

So I would ask the question: What leads the Commission—and I would ask this of any of the four—to believe that the strong recommendations on social justice, human rights, economic justice are going to be part of an embrace by this administration, or are we only going to get the economic and military aid and then leave aside all those conditions which provide the entree for Cuban and Soviet interference in Latin America?

**Mr. KISSINGER.** Let me answer the question first, and I think Lane Kirkland, who was, as he has already indicated, one of the chief promoters of this, plus any of my other colleagues, can then comment. The reason I thought I should answer it first is because I added a note to the report with respect to the conditionality clause which has been interpreted in many public statements as an opposition on my part to the conditionality clause.

I want to make absolutely clear that I strongly support the requirements of conditionality. I support the objectives, and I support the fact that it must be expressed in some legislative manner. My addendum was designed to indicate some criterion by which it should be applied, and I believe that there are many stages between total cutoff and unrestricted aid in which the United States can make its influence felt.

So I would like first of all to state the fact that I join the unanimous view of the Commission that there must be conditionality. The fact is that I would stop short of applying it in a manner that would bring a Marxist-Leninist government into power, and therefore in the name of human rights bringing in a group dedicated to the destruction of human rights, I think if one sat down as a practical matter to work it out, there would not be all that many differences on the practical side.

**Senator TSONGAS.** Let me pursue that.

Was the President in error when he vetoed the certification legislation?

**Mr. KISSINGER.** I would rather address the other question, is there any reason to believe that the administration will embrace this?

I believe that the administration will make a serious effort to work out an agreement with the Congress. I believe if it does not, it will make a grave error, and it will be very difficult to achieve this bipartisan consensus, and I hope very much that an agreement will be reached with the Congress in which the conditionality clause can be implemented.

Whether that is done with enthusiasm or under the pressure of necessity is really more an esthetic question. I believe the outcome should be an agreed position between the Executive and the Congress on the question of conditionality whose objectives I support and whose language I support.

I think Nick Brady joined me in the clarification, and I do not know whether he thinks I went too far.

**Senator BRADY.** No; I would not disagree with that, Henry.

Senator, I think that we struggled mightily with this problem and do not disagree with your sentiments at all. I think Henry's note, which I joined, only points out that somebody had better be thinking about the problem if El Salvador becomes critical, and it starts to look like the insurgents are going to take over, which I personally think is at least a 50-50 chance over the next 18 months. What do we do about it?

So I would second what Henry says.

**Mr. KIRKLAND.** As far as I am concerned, Senator, the conditionality recommendation of the report should be taken seriously and should be incorporated in the legislation. As I stated during our discussion of the matter on the Commission, I have tried in my own mind to come up with better approaches to this problem that would be effective in maintaining the kind of pressure that I believe needs to be maintained to secure these reasonable expectations that are set forth in that conditionality recommendation.

But I have been totally unable to come up with any approach that I think is any better than the one that was vetoed, and I can say flatly that I believe that veto was in error, and I believe that the approach should be restored.

If it is not, and if it is not seriously enforced without games of sophistry, I could not support military aid.

**Senator TSONGAS.** Let me ask the professor one question, and that is that I was in Nicaragua in August, and I came away with a very strong impression. The fact is, whatever we may think about it, the majority of the people in Nicaragua support the Sandinista government, and if consent of the governed means anything, that should have some weight.

In your deliberations I would ask you and see whether there is a disagreement. Do the majority of the people in Nicaragua support the Sandinista regime?

**Mr. DIAZ-ALEJANDRO.** Senator, in my own professional work, a lot of my experience was in Argentina. There was, as you probably know, a firm belief on the Argentine scene that the Peronists would forever win. When you had a secret, free election, it turned out that myth was wrong.

My own reading of Nicaragua is that the revolutionary leadership is still coasting on a lot of popularity inherited from the struggle against Somoza. So I would not challenge that they probably have a lot of popularity, especially among the young people. I do not deny that. I just would like to see, personally, a free secret ballot and having somebody like Comandante Pastora or Arturo Cruz run against Sandinista leadership.

My best guess is that the Sandinistas may edge them out, but it is not going to be as overwhelming a victory as other observers would say.

If I may just add on the previous question, I just want to emphasize that I feel very much like Mr. Kirkland, that the conditionality clause is absolutely essential to our report, and I can speak as a totally ignorant person in the ways of Washington answering your previous question of what gave me hope that something would be done, and I should say it is the Congress and Senators like you. Maybe this is very naive, but it is the answer.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Mathias.

Senator MATHIAS. Mr. Chairman, I have three brief questions I will put as briefly as possible.

The first is that as I recall it, it was a fundamental premise of the discussions within the Commission that we should stimulate dialog. Stimulate dialog within the nations of Central America, stimulate dialog with the other nations in the hemisphere, and in particular, with the Contadora nations, but broadly throughout the hemisphere, and even stimulate the dialog with Europe which has expressed an interest in Central America.

Now, let me put to Lane Kirkland the question of whether the Central American Development Organization [CADO], which I view as a central instrument here, would be stimulative of this kind of dialog, whether you think it is a necessary part of this package.

**Mr. KIRKLAND.** Senator, I believe that the CADO proposal contained in this is the heart of it. I think it is the most innovative part of the report, and it would represent a departure from past approaches, and

I think it would give great hope to the people of that region. I do not think that countries consist solely of government elites, or that futures of countries ought to be decided solely by conversations among government elites.

In the long run, the future of countries and systems and societies is decided in the work places and on the streets and in the bazaars. Too often we have found that out too late and it is absolutely essential that we have a mechanism by which we can lever participation into the program of those elements of society which in many of these countries have been systematically excluded.

And that was a basic concept in the design of this proposal for CADO; that it would be created on a tripartite basis along the lines of the ILO governing body, and it is significant, I think, that that U.N. organization is one of the very few, and perhaps the only one in the entire international organizational structure where you do have such a dialog, where the outcome of votes is not preordained or determined by public postures of professional representatives of particular governments.

I think it is a fine model. It is one that has excited the imagination and the interest of the organizations of working people with whom we have very close relations in Central America, and it is the touchstone, I think, from their point of view. If that was stripped or was not incorporated in what came out, I think it would be deeply disappointing to people in Central America.

I want to go a little further and in the course of this respond to a question that Senator Percy asked earlier about what would be the effect if the recommendations of the Commission were not pursued and came to nothing. In my view, sir, we would be far worse than if we had never set about this task.

It was quite clear from our visits and the conversations that we had with representatives across the spectrum of the societies of the countries in Central America that the mere establishment of this Commission had built up expectations to an extraordinary level. Many of these countries had set up counterpart groups to design and plan their presentations to the Commission and their representations. Elements of these societies outside government, businessmen, clergy, educators, representatives of the Indian communities, all came and expressed those same expectations.

And if after that this comes to nothing, I think it will have a shattering effect in terms of morale down there, and we will be far worse off than if we had never been formed or undertaken this task.

Senator MATHIAS. Let me say, Mr. Kirkland, I am in wholehearted agreement with you on both points. I think you are exactly right.

When I first discussed the establishment of the Commission with Senator Jackson, in that first conversation he used a phrase which struck me very forcefully, which he used again on several occasions. I can recall very well the gesture he made when he said unless social and economic progress is made, the military shield will crumble.

Now, there was a fleeting reference made this morning to \$24 billion; \$24 billion is a hard sum to just refer to in a casual way, but that is the figure that the Commission concluded would have to come from somewhere in the course of the next 8 years, the next really 6 years, if

the economy of Central America was not to be guaranteed prosperity but just to get back to the 1978 level.

Perhaps Carlos Diaz-Alejandro might comment briefly on that figure because when you look at that figure, the \$8 billion, which is the first installment, becomes a bargain rate.

Mr. DIAZ-ALEJANDRO. Yes, Senator. That \$24 billion figure is the total current account deficit through 1990 which one would expect to happen in Central America, given all the assumptions and targets. So it is a global figure; it is the total capital inflow which would have to come from somewhere.

Now, we expect in making the projections that part of this \$24 billion—unfortunately one cannot be too optimistic—would come from private capital inflows, some direct investment, some banking loans which we would hope would be forthcoming, especially in the latter parts of what remains of the decade, into Central America, and that could be roughly about one-fourth.

Another fourth, we thought, could be expected to come from other sources excluding the U.S. Government directly, such as the World Bank, the Inter-American Bank, the Europeans and Japan, and hopefully, even perhaps a modest continuation of the Mexican and Venezuelan plans, so that about half would remain for U.S. direct government aid.

Now, given the years involved, it works out to roughly the same average per year as our other number, roughly about \$1.6 billion per year. So that is the reconciliation of that big figure, 24 with the other figures of \$8 billion.

Senator MATHIAS. Mr. Chairman, I ask unanimous consent to submit a brief question in writing to Dr. Kissinger since my time has expired, unless Chris would yield.

Senator DODD. I would be glad to yield.

Senator MATHIAS. A one-word answer only is required. It is about a different kind of conditionality. We talked about conditionality on human rights, but the International Monetary Fund [IMF] has loaned considerable sums of money in the region, and it has imposed conditionality of a different sort, economic conditionality.

Now, if we were to debauch the area with \$8 billion, would in your judgment that vitiate the kinds of conditions that have been imposed by the IMF?

Mr. KISSINGER. I have expressed my view on the IMF conditionality which I think for developing countries may improve the balance of payment at the risk of political stability, and I think what we have recommended may avoid this dilemma.

Senator MATHIAS. Thank you.

The CHAIRMAN. Senator Dodd.

Senator DODD. Thank you, Mr. Chairman.

Let me first of all, because I did not take the opportunity at the outset, express some general views. After listening to the comments of my colleagues here, I guess I find myself in a bit of a minority position. And by what I am about to say, I do not want to in any way suggest that I do not think the effort was worth it at all. I think it was worth it. I am glad you did meet. I found many parts of the report things that I can support. As the author of conditionality in

this body, clearly that is something that I do think is important. I think chapters 4 and 5, talking about a Central American Development Organization and a variety of other things, make some sense.

But my concern is that in an overall way I think there was far too much emphasis placed on trying to please everybody, to develop some consensus, and rather than to chart a specific strategy and to deal with the complex problems of the region. And my concern is that in an effort to achieve what everyone has hailed as the essential element, which is bipartisanship up here, we may have gone too far to please everybody, in a sense.

But specifically, I would have to express here this morning my concern over the failure to really emphasize the importance of the Contadora process, and I would suggest to the Commission, to the extent there is any followup, that you may want to check again with the Contadora nations with regard to their feelings on this.

No. 2, the failure to really address what I think is the definition of wealth in the region, and that is land, and to pay more attention to the issue of land reform; and then to disregard—on the one hand to endorse the notion of a diplomatic/political solution without preconditions to endorse that notion, and then reject out of hand power sharing and how it should be interpreted literally; I think that is a mistake.

And last, I would suggest to you that while certainly all of us believe that economic assistance is vitally important in the ultimate success of this area emerging from the chaos it has been in—it has been referred to over and over again as a Marshall plan for Central America—I want to suggest that to talk about a Marshall plan for Central America in the middle of a conflict which is ripping that part of the world apart is as foolish as it would have been to provide a Marshall plan for Europe in 1941 or 1942. We must bring an end to the violence. Then I think the economic assistance can take on a meaningful role.

Let me if I can move away from some of these specifics and try to get to what I believe are the underlying issues. Those are of course, the linkage between East and West and the importance of this area as a security interest. The report on numerous occasions talks about the security interests. The Commission has concluded the security interests of the United States are importantly engaged. The statement of Dr. Kissinger this morning makes that point again.

I would assume—and I address this to you, Dr. Kissinger—that you do not find the security interests of the region to be a phenomenon of the last couple of months, the last couple of years, or even a couple of decades, but that our security interests in this region have existed for some time. I presume you would agree with that.

Mr. KISSINGER. Yes. But the threat has not existed in this manner until the last few years.

Senator Dodd. You do not consider the Cuban question of 1960 to be a threat in the region?

Mr. KISSINGER. Certainly, but it did not spread into the Central American region in its present form until 1979.

Could I make one comment about an earlier statement you made with respect to the Contadora process. With all respect, Senator, that

just simply is not correct. As soon as the Commission was formed, a number of the Commissioners met with the Ambassadors of the Contadora countries.

We met with them every month while the Commission was going on. We visited the Contadora countries. We devote some pages in there to the Contadora process. But above all, we took the 21 points, as Lane Kirkland has pointed out, of the Contadora program and expanded them into our recommendations. There is not one recommendation we have made that is not also a recommendation of the Contadora process.

Now, it is true, I suppose it is true—that some Contadora countries are repeating the same comment you have made, which is due to the strange phenomenon that our embassies do not seem to have distributed our report around Latin America, and that we keep getting asked—we keep getting appeals from people in Latin America that would like to be supportive but cannot get a hold of the report, and that they are quoting comments that were incorrectly made in the American press as the only source of information.

We visited Mexico, Venezuela, Panama, and we met with the President of Colombia, and we met with the Ambassadors of the Contadora countries regularly, and we adopted their program. I do not know what more we could have done.

Senator Dodd. I do not want to dwell on this particular point, but your own report on page 120 is less than what you would call a ringing endorsement of the process: "The Contadora nations do not have extensive experience in working together \* \* \* the Contadora process has not yet been tested in terms of crafting of specific policies. \* \* \* The United States cannot use the Contadora process as a substitute for its own policies."

If I were a foreign minister in one of the Contadora nations, I would be less than enthusiastic about the terminology used to describe a process which is unique historically.

So I would suggest to you that you might want to check again. I have met with the people from these countries as recently as the last few days. Unless they are telling us different stories, I get a different reading of how enthusiastically they support this report, and I am sure we will hear more from them in the coming weeks.

But let me get to the security interest, because I do think it is so important, and such an emphasis was placed on it in this report, specifically the question of how important the region has been over the period of years.

The reason I raise it particularly with you, Dr. Kissinger, is that we are all, I think, indebted to you for a monumental effort that you engaged in in the writing of your two-volume memoirs, some 2,500 pages, covering the period from 1969 to 1974. I have gone over these over the last couple of days to try and find some reference during that period of time to any of the Central American countries, or any reference to the region, and I was hard pressed to find one.

I wonder if you might express whether or not there was just nothing going on during that period of time, or was it just not worthy of mention during that period—why it was entirely left out as a vitally important security interest to the United States during that period?

**Mr. KISSINGER.** Senator Dodd, even if you should prove that I was not omniscient, which, I admit, would be an event that has not often occurred, from my lips, before this committee, what would it prove?

First of all, in the period that is covered by my two volumes, we had the Vietnam war, we had a Middle East war, we had a series of crises with the Soviet Union, we had the opening to China, we had negotiations on arms control, and any administration will always have to establish priorities among all the things they could do. At that time Central America was quiet.

Ideally, you would have to say one should deal with the regions of the world before they erupt into chaos. There was no Cuban-Soviet security problem in Central America at the time. In an ideal world where one can deal with all issues simultaneously or perhaps with different personalities, one might well have addressed the problem of economic and social reform at that time.

So if it does any good to say that maybe we should have done that at that time, if we had had enough time for it, I am willing to grant that. That does not help us with our current problem. Maybe we should have done more or differently at that time.

Senator Dodd. I think in a sense it gets to the point I am trying to make. That is, while I would disagree with you that there was not a Cuban—I will try to wrap it up, Mr. Chairman—while I would disagree with you over whether or not there was a Cuban influence in Latin America between 1969 and 1974—

**Mr. KISSINGER.** We are talking about Central America right now.

Senator Dodd. And in Central America, for that matter. These revolutions are not unique to the last 2 or 3 years. But let me raise this with you because many students of Central America—

The CHAIRMAN. Senator Dodd, we are going to have to come to a close, otherwise some Senators will not have a chance to question.

Senator Dodd. I will finish with this question.

Senator BOSCHWITZ. There are four more questioners.

Senator Dodd. Just on this last question—many students believe that in 1972 the abortive election in El Salvador was a seminal event, and, in fact, was the point from which much of the difficulty we see today actually sprang. Certainly the earthquake in Nicaragua in December 1972, and the beginning of the theft and abuses by the Somoza government was another seminal event which led to a lot of the difficulties that ultimately resulted in the overthrow of 1979.

What was the response of the Nixon administration to those seminal events?

**Mr. KISSINGER.** Senator, you know, I do not know how useful it is to go back 12 years to 1972. We had an offensive in Vietnam. We had a summit with the Soviets. We had a summit with the Chinese. And it is quite possible that what may have appeared as one of many coups in Central America was not given the attention that in retrospect you can say it deserved. That does not help us in 1984. We have missed a seminal consequence, and I am sure that this will happen in every administration.

But the problem is in 1984, 12 years after that event, can you use the fact that its full significance was not understood in a totally dif-

ferent context as an excuse for not doing what needs to be done? That is the issue before us, Senator.

I am not defending anything, any decision we made.

The CHAIRMAN. Thank you very much, Senator Dodd.

Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

I know the Commission has spent a great deal of time and thoughtful effort and has produced a report which I think is going to help us focus on the debate. It seems to me there are two things on which we would all agree, that political and economic stability in the region is vital to our security, and second, the long-term commitment spoken to in the report.

I think, Mr. Kirkland, your observation is correct that, indeed, not only in Central America but Latin America, our concerns have tended to be episodic.

It is stated in the report, and you mentioned it, Dr. Kissinger, when you said an absolute prerequisite for success in this situation is peace. I think Senator Dodd made a very good point when he said the Marshall Plan was designed to meet the needs of war-ravaged countries after hostilities had ceased. This is a plan that we are trying to implement on what has been said is a collapse in the area. It would seem to me that in order to have peace at this point, either the government, speaking of Salvador, would have to bring serious internal reforms, or guerrillas—this could apply to Nicaragua as well, I suppose—guerrillas and the government would have to be involved in genuine and constructive negotiations, or else there would have to be a total and complete military victory.

I do not really see at this point in time in the Commission's report a strategy behind the proposals that would bring all this about. I think that for American policy to be effective in Central America, we have to have both a carrot and a stick, and in many ways you have attempted to address this.

But with an \$8 billion carrot, we have used and addressed in the report conditionality as a stick, and while I can appreciate the intent, I really do not think it is a stick at this point. It is a weak reed of the frailest kind. No President nor no Congress at this point in time is going to cut off aid under existing circumstances, and I think we are hypocritical to suggest that we would.

So what is the stick? It seems to me that we have to make clear that we will not allow our interests in Central America to be subverted by either our friends or foes, and it is how we approach that, it seems to me, is the question we are going to have to answer to ourselves as we look at the legislative vehicle.

I would like to ask you, when you were making this study and analyzing, for instance, in El Salvador that since 1980 we have spent \$1 billion, what indications are there that previous U.S. assistance has worked? The national plan, for instance, which you mentioned and which we have pinned great hopes on for the Salvadoran army to follow through when they have taken a village with economic assistance and so forth, has really failed. Those troops that we have worked very hard to train and assist in December really turned tail.

Now, I think we have to ask ourselves what sort of monitoring, what sort of analysis have we brought to see where and how that billion

dollars has failed to bring results. This will better help us analyze where future assistance can be successful.

So I would like to know what sort of analysis you gave to the past aid we have given?

**Mr. KISSINGER.** Senator, first, to take your general comments, of course, we did not use the word Marshall plan, but it has been freely used. If one said we wanted to follow the model of World War II and first win in Central America, and then we will follow it with this program, which would be a logical sequence, I am sure that many people in the Congress would accuse us of a purely militaristic approach.

On the other hand, if you say there must be peace, not achieved by military success before there can be any program, then you run the risk that those who have the least interest in the success of the programs we have recommended, say the Nicaraguans or the Salvadoran guerrillas, could get a veto over the whole program simply by refusing to make peace in the negotiation.

I would agree, and I think the Commission would agree with you that there should be genuine and serious negotiations, but that depends on the definition of what is meant by genuine and serious, and one must avoid the danger of letting the other side define by what it says it will accept, what is considered genuine and serious, because then we will be driven into accepting their program.

Now, with respect to your second question, it is, of course, in a guerrilla war extraordinarily difficult to establish these criteria because one of the strategies of the guerrillas is to destroy the infrastructure. They have by their own announcements—I had the figures here somewhere. I did not bring them with me—they have destroyed hundreds of trucks, I think thousands of trucks, and more than 60 bridges.

So the infrastructure gets attacked, the government gets weaker. As it gets weaker, it gets more arbitrary. As it gets more arbitrary, it loses legitimacy. As it loses legitimacy, a terrible, vicious circle is created that in part is due to the incompetence of government and in part due to what the guerrillas are trying to achieve.

So I must tell you that what we have attempted to do is to carry out reform, economic progress in the midst of a guerrilla war. If you look at it historically, you can argue that this may not succeed, and we are saying it may not succeed, but we know no better program.

We hope that CADO will give us monitoring mechanisms which are not American but which come from the various private sectors that have an interest in it. But we should not delude ourselves about how difficult this problem is, with the penalties of not carrying it out being graver still.

**Mr. KIRKLAND.** May I make a comment on one aspect of your question and remarks, and Senator Dodd's?

It has become sort of a cliche that a Marshall plan will not work there and that the situation is dissimilar. Well, of course, situations are always dissimilar in different places and different times, but the notion that the Marshall plan was put into effect successfully in the absence of conflict and social turmoil is simply wrong.

We were there—I was around then, and we were deeply involved in certain aspects of that undertaking, and I assure you there was great conflict and great social turmoil in Europe. There were pitched battles

on the Marseilles waterfront to which we were a party, and there was a strong and vigorous internal opposition to the program, efforts to undermine and subvert it. There was a Greek civil war. It was not just the business of restoring a prostrate, passive society.

The essential elements of the Marshall plan are in fact applicable, in my view. Those essential elements are not what the contents of the AID programs are because they have to be adapted to different circumstances, but the essential elements are where a commitment of the country is involved to work with us in designing the programs and plans that they are prepared to support, the economic reconstruction of their countries. The participating countries established counterpart bodies and worked with the Marshall plan, the Economic Recovery Administration at that time, and participated in the design as well as the execution of the programs that were put into place.

I believe that this is essentially the essence of it, and I think it is quite applicable.

The CHAIRMAN. Dr. Kissinger, if you could stay on for a few minutes more, I think we could finish the hearing and you would not have to come back.

Mr. KISSINGER. Yes, I definitely will.

Senator KASSEBAUM. I have lost rebuttal time. I had a question I wanted to ask Professor Diaz.

The CHAIRMAN. Can we put that in the record?

Senator KASSEBAUM. And Mr. Kirkland regarding nontariff barriers, and I will put that in the record.

The CHAIRMAN. Fine. I will have some questions to put in the record myself.

Senator Boschwitz.

Senator BOSCHWITZ. Thank you, Mr. Chairman.

I agree with Secretary Kissinger's original remarks that we can only achieve something through a bipartisan approach with respect to Central America. I enjoyed the report. I read most of it. I have read some of the critiques. Critics have been very liberal in their criticism but not very forthcoming in alternatives.

Many of my questions have been answered, Mr. Chairman, so I will comment on some of the former questions. I agree that you cannot simply wait for peace to come because you will give a veto to the insurgents, and that is not a state likely to lead to a just solution.

I would also like to comment on the veto of the certification legislation to which my friend Senator Tsongas referred. I think it did not reflect a feeling on the part of the administration of a lack of interest in human rights, so much as an invasion of their executive prerogatives. There is no question in my mind that when we put such a certification together with an appropriation—as was not the case in November—they will not veto the measure.

So my question to all of you is, in your judgment, will it work?

Professor Diaz-Alejandro put a number of "ifs" before his opening statements, that we can only do this if this happens and if that happens.

Mr. Kirkland quite properly points out we cannot do it on the cheap, that we have to agree to move forward, that it has to be by diplomatic and economic means, and that you do not want to answer, as Senator Brady pointed out, whether we would deploy or not.

But what is the likelihood that the Commission's recommendations will work in the area as we now find it? Will we be able to give aid in the appropriate places? Will the conditionality that must precede the aid be met in a broad enough sense to make the plan work?

**Mr. KISSINGER.** Well, I would call attention to something that my colleagues have pointed out. In almost every country that we visited, without any prompting from us, and in fact to our surprise, counterpart commissions representing various sectors of the society were created that had previously had limited access to the governmental process before. And that gives us hope that if a comprehensive program were put into place, those energies could be mobilized to achieve the results that we have outlined.

We say specifically in the report that we do not promise success, only that success is not possible by doing less than we have put forward. The very worst that can happen if this program is implemented is what is guaranteed to happen if the program is not implemented. Therefore, I would think that the consequences of failure are so great that we should do what we consider a minimum program.

**Senator BOSCHWITZ.** The countries that are enemies of this program do not have a veto over the success of the program, but they might have such a veto if you said there had to be peace before we implemented it?

**Mr. KISSINGER.** I think that that is an alibi for doing nothing. You cannot have peace first before carrying out this program. It would be desirable, and in the course of carrying out this program, we would hope that peace would be achieved. But if you make that a condition, you give the enemies of this program an opportunity to veto, and you put yourself at the mercy of the people who have systematically undermined stability there. I do not see how we can do this.

**The CHAIRMAN.** Thank you very much.

**Senator Pressler.**

**Senator PRESSLER.** A concern that I have is that the elites in these countries, the leading families, have diverted U.S. aid dollars to Swiss and New York bank accounts, at least according to press reports. I have been concerned that the upper classes in this region of the world are not doing their share.

Maybe that comes from some of my own experiences serving in the Army in Vietnam where I think our aid programs often worked against our own objectives. Since that time some of our aid programs have worked against our own objectives because the benefits have gone to the leading families. Maybe they are building roads, but the construction firm is owned by the leading families, the elite of the country, and they, either through corruption or legally, technically skim off much of the U.S. aid money.

I would certainly support a policy that would revolutionize our programs to get us on the side of the poor and distressed, but it seems we are on the side of the wealthy and the powerful and I see nothing in the report that assures us that we will be changing this.

Now, in the Commission's research did you find that the elite, the leading families, many of whom are in fact living in the United States and running the show back home by remote control, are not in fact skimming off much of our aid money?

Mr. KISSINGER. The flight of capital from these regions is a very definite problem. It has to be solved. And it is also true that when I visited Spain 2 weeks ago there was some criticism in the Spanish press and in Spanish governmental circles about comments in this report that Spanish tradition did not lead people naturally toward democracy in Central America.

But it is true that whatever the reason, whether it is Spanish tradition, our influence or whatever, there have developed oligarchies that have not been as responsive to the popular will and necessity as should have been the case. This is one of the problems that this program must overcome. If at the end of 5 years nothing has changed in the social structure we will have failed.

And all I can say is that the Commission was aware of what you say. Great efforts must be made to avoid skimming off the funds.

If I might just make one comment about Vietnam, with all of the diversions that may have taken place, the fact is that after the North Vietnamese took over South Vietnam they still do not permit the people from the north to visit the south—or at least they did not for many years—for fear that the contrast of what has been achieved by our aid programs there would be so great that it would undermine the north.

So one would hope that one could do much better than that in Central America.

Senator PRESSLER. Well, a final followup on that.

Mr. KIRKLAND. May I interject a word on this now? I am a little surprised to hear you say, sir, that you read the report and did not find anything that suggested any change in the social structure or the distribution of power or wealth in the societies. I think this report is laced with that.

Senator PRESSLER. I am told that 40 percent of the aid money that is spent on construction is spent through companies in El Salvador that are owned by families who live in the United States. Did you find that to be true?

Mr. KIRKLAND. I do not know where you got those figures. I do not know. But the point I am making is that the report clearly points out that there must be social reconstruction, we have to develop stronger institutions of the poor and of the working people, that they must be brought into participation in those societies.

And in fact the structure of CADO is directed as much as a safeguard against elite rule and elite pilferage as the other values that it represents.

Senator PRESSLER. I would agree that that is one of our objectives, but my point is if we structure this aid program the same way we have been doing, what is to stop this problem? And the figures I get are from sources within the U.S. Government. In about 40 percent of the construction that is carried on under many of the programs, the major stockholders in the companies that do the work live in the United States.

And here we are merely transferring wealth to wealthy families who do not even live in their own countries. Somehow we have to address this, and I do not see that the report addresses it, very frankly.

Mr. KIRKLAND. The report does address it, sir.

Senator PRESSLER. Well, what is the solution?

**Mr. KIRKLAND.** The solution is a change in those societies, which we do address repeatedly throughout the report, the development of strong countervailing institutions in those countries, development of pluralism, the development and proposals for the creation of a supervisory mechanism under which the people other than the oligarchs participate.

**Senator PRESSLER.** Well, specifically in the administration of this \$8 billion of aid, how are we going to accomplish that? I agree with all the things you are saying through generalities. But if we are building roads in El Salvador, how are we going to get it done if we do it through the same companies that are owned by the elite who live outside the country?

**Mr. KIRKLAND.** Well, I suggest we should not.

**Senator PRESSLER.** Well, how do we do it? That is what I found lacking in the report. I mean, you say we are supposed to tax our taxpayers to come up with \$8 billion, but I do not see any change. Sure, everybody agrees with these general things you said—and I agree with all of them—but I think our taxpayers are just at a point where, reading about these things, about wealthy families living all over the United States who are citizens there who own the companies that are making most of the profit, they won't support more of the same.

And there is a flight of capital problem. The Wall Street Journal this morning cites two or three examples of that. We just cannot do it that way as we are looking for a solution. I know your report is great and it contains many agreeable generalities, but this is a specific problem we must address, and I would like your views on it.

**Mr. KIRKLAND.** I repeat, sir, there are specific proposals in the Commission's report that address that problem. Among them is the structure of the Central American Development Organization, which calls for the participation of others than the existing power structures in those countries in the supervision of every undertaking.

**The CHAIRMAN.** Thank you very much, Senator Pressler.

**Senator HAWKINS.** One of the Senators stated that polls throughout the United States showed that the American public does not support further assistance to Central America, but I am also reminded that overwhelming polls supported the President's rescuing of Grenada. These conflicting signals pose important questions for those of us who try to be sensitive to public opinion.

Page 122 of the report says that the United States has a dual task. It says, "the United States must work to create those economic conditions in Central America that thwart the export of revolutions and to make clear the risks of expanded violence."

In that same paragraph the report goes on to say with regard to Cuba: "We must also bring home to Havana a due appreciation of the consequences of its actions."

**Mr. KISSINGER.** What page?

**Senator HAWKINS.** Page 122. Further, the paragraph says, "We must also bring home to Havana a due appreciation of the consequences of its actions."

Dr. Kissinger, what do you see as the consequences for Cuba for its involvement in Central America, and what do you see as incentives, if any, of Cuban disengagement from Central America?

Mr. KISSINGER. Cuba seemed to have been concerned that even Grenada might affect its own position. I would think that a Cuba that is concerned with its own development would not necessarily encourage a spread of the violence in that region.

What our Commission would fervently hope is that the positive programs outlined here would permit, and the negotiating programs that we have outlined here would permit, a dissociation of all outside military force from the region and then a development of the region within its own framework.

Whether the Cubans will see it the same way, whether they are so dedicated to a concept of revolution, that remains to be seen.

Senator HAWKINS. Thank you, Dr. Kissinger.

I agree with the conclusion of your report that Central Americans desperately need our help and that we have a moral obligation to provide it.

The CHAIRMAN. Thank you very much, Senator.

Senator Wilson, Dr. Kissinger really does have to leave, but we did not want to have you here without putting at least one question to him.

Senator WILSON. Thank you, Mr. Chairman. I appreciate the privilege of being a guest of the committee and I will try not to abuse that.

Let me just say that I think no one could quarrel with our distinguished colleague from Delaware, Senator Biden, in his call for a bipartisan foreign policy and I think one of the remarkable things and hopefully a reflection that we are in that direction is the fact that this Commission has been bipartisan, not just in name but in fact, and that beyond that there has been a virtually unanimous agreement on its recommendations.

It is for that reason that I am concerned about two things, but since I have but one question I will submit one for the record and ask the other.

I heard Mr. Kirkland state that he had a concern about the legislation as proposed in terms of conditionality and I was interested in his response to Senator Pressler. It seemed to me that your remarks indicated very clearly your appreciation of the difference in the timeframe for social progress and what I will term military necessity.

I think both are urgent. I think your recommendations for economic as well as military assistance make great sense. My concern is that this Commission continue to experience the same kind of bipartisan unanimity that has characterized its work to date.

What, with a little more precision, Mr. Kirkland, is your concern with respect to the implementation of the conditionality?

Mr. KIRKLAND. I have not been satisfied with the performance of the authorities in Salvador specifically under the provisions of pre-existing conditionality. We expressed that view in testimony before the Congress on each occasion when the appropriation was being considered.

And because of those failures to perform on the requirements of the statute at the time, we did not and have not for the past year supported military assistance. I am still not satisfied. I would hope that because of the added measures and opportunities that are contained in this report, if they are carried out, that some more persuasive force can be brought to bear both in terms of the benefits of the program and the requirements for eligibility that we can get some further improvement.

But in my view that progress has to be demonstrated in the areas that are specifically referred to in this report—trade union rights, free elections, the application of the rule of law, and the termination of the death squads and the prosecution of the guilty.

I think the gap between performance and what reasonable expectations are on the most fundamental basis still exist. I am particularly concerned about this because we had two staff people working for the AFL-CIO. They were murdered in cold blood. We know who did it. We know who ordered it. We had to develop the facts with very little assistance from the constabulary forces of that country and we have not been able to get them prosecuted.

Now I am not just concerned about normal human aspirations for revenge in that case. I am concerned that there not be an impression left that there is open season on our people working in the territory. But I am also concerned about the conditions under which the average person lives and works and attempts to do something for his fellow man in that country.

And if I had my choice between the prosecution of those murderers and the creation of circumstances that would assure that justice would prevail in that country, I would take the latter, if I had to make that choice, but I do not know of any reason why I should have to make that choice. I think we are entitled to both.

**Senator WILSON.** Aren't we, though, inescapably compelled, whether you and I like it or not, to face that fact that we have a Hobson's choice? We have a Nation which is besieged on the one hand with nothing like the system of justice that you and I would describe as democratic or even remotely adequate. On the other hand, it is besieged by a threat which the report unanimously acknowledges from the Sandinistas' effort to extend their revolution beyond the borders of Nicaragua.

When you suggest that we should have certification, I would ask you to consider whether it is not instead the requirement of the Congress to determine whether on balance the demonstrated progress which you have recommended as a test is met, not the administration.

I think we have to make that judgment and I think we have to weigh it very carefully, bearing in mind the need for reform internally, but bearing in mind the need to allow human rights to have some chance. And they will have none, clearly, if the external threat succeeds.

**The CHAIRMAN.** Thank you very much, Senator Wilson.

**Mr. KIRKLAND.** I would amend that a little bit, sir. That does not complete the full range of the elements of the choice. It is my view that the conduct of the death squads and other elements of that society who are fighting not against the guerrillas but against the democratic forces in that country are as much of a threat to the survival of that country as are the guerrillas. The fact is that they are working and serving each other's interests.

And it is just as vital to end the one as to end the other if we are going to have a positive result in that country.

**The CHAIRMAN.** Thank you very much. I will have additional questions I would like to submit for the record, one of which impinges on and expands on Senator Pressler's questions on the ability of the area to absorb this aid.

Dr. Kissinger, I suppose that Ambassador Shlaudeman will be here tomorrow. We will then hear all of the criticisms that can be constructively made and I would like to keep the record open so that if there are any of those that you feel the record could be more complete by your adding after that, then, without additional hearing but submitting for the record answers to some of those problems that are raised, I think it would make the record a much more complete record.

I would like to say that I know that this Commission came at a time when every single person on it had a very full agenda of their own. The devotion you have had to it is appreciated deeply by every member of this committee and we recognize that our best efforts can now be made by implementing and carrying forward as many of these recommendations as we can.

That is the greatest reward you can have for your considerable efforts. I can only say this: Without what you have done there would be no possibility of this kind of a program going on.

Senator Pell.

Senator PELL. Mr. Chairman, I was struck by the fact that in the report there is so little reference to environmental degradation, the fact that so much of the rain forest has been removed in El Salvador and Haiti. Many problems come from environmental considerations.

For that reason, I would like to leave a question for the record focusing on this problem and asking the Commissioners to focus a little more on the environmental problems of the area.

Mr. KISSINGER. There is a reference to the deforestation.

Mr. DIAZ-ALEJANDRO. Yes, Senator, page 58, the last point or bullet. We recommend that they clarify the legal status on use of public lands to check deforestation and the degradation of the environment.

The CHAIRMAN. To the extent that the question being submitted for the record can be amplified on, it will be left in the record, then, for answering.

There being no further business, the hearing is adjourned.

Mr. KISSINGER. Thank you.

[Additional questions and answers follow:]

**MR. KISSINGER'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED  
BY SENATOR PERCY**

*Question 1.* Serious reservations have been raised about the ability of the Central American region to absorb the large sums of economic assistance proposed in this report. Should, for example, aid be spread out over a longer period of time? Does the region have the managerial and entrepreneurial skills to effectively use this assistance?

Answer. The ability of a lesser developed country to use foreign aid efficiently and effectively is always a question. But in the Central American case there are two factors which suggest optimism. First, because of the sharp decline over the past 4 years, there is tremendous slack in the economies of these countries. Much of the aid would be used to bring imports back to a prudent and necessary level in order to revive economic activity. Absorptive capacity would, of course, not be an issue in this regard. Second, much has been made about the need for properly designed projects. Yet the Commission heard numerous concrete proposals, not only from the countries themselves, but from international financial institutions such as the Inter-American Development Bank. Scores of worthy projects have had to be shelved only because of lack of financing.

The Central American countries do have development institutions, several of which are highly regarded. Regional institutions, including the Central American Bank for Economic Integration, enjoy good reputations. Moreover, a cadre

of planners and implementers has developed in each country over the past four decades. These may not be perfectly sufficient in numbers and skills, but are quite impressive in terms of aid recipients globally. The private sector, to which much of this assistance would ultimately go, has demonstrated considerable dynamism and efficiency in the past, as our report makes clear.

Finally, the assistance level we have recommended is in our judgment a minimum program designed only to bring these countries back to where they were in the late 1970's. Spreading out such assistance over a longer period could well mean an end to hopes for the restoration of economic growth. Without growth Central America is in danger of sinking ever deeper into the poverty and misery that contribute so heavily to today's acute crisis.

*Question 2.* Can the Commission members please be more explicit in telling what they expected to be able to achieve with the proposed Central American Development Corporation? Why could the World Bank or the Inter-American Development Bank not perform the functions of the CADO as the Caribbean Group does for the countries of the Eastern Caribbean? Is not the sum of money recommended for CADO too little to give it effective influence? Does CADO have to be a channel for United States and/or other donor funds, or could it also be a coordinating board?

**Answer.** The Commission believes strongly that the Central Americans themselves, and particularly the private sectors of Central America, should be closely involved in what we see as a continuing effort over a number of years to support political and social reform, as well as economic growth, in the region. We are convinced that the Central Americans must be able to identify with these programs as their own if they are to succeed. CADO is designed to do that, particularly by bringing business and labor into the process.

CADO also represents an attempt to promote political, social, security, and human rights objectives by linking specific performance in these areas to aid. Additionally, it represents an attempt to involve non-governmental sectors in both monitoring progress in these areas and advising on project assistance. Finally, it is an invitation to the Central Americans to get involved and accept responsibility for regional performance in these areas.

The concept is an outgrowth of the Commission's finding that the causes of the crisis are various and call for multifaceted solutions. Because the conditionality would be tied to non-economic as well as economic factors, none of the international financial institutions, which base their loans on strictly economic feasibility and need, would be appropriate substitutes.

It is possible that CADO may indeed be underfunded for the considerable task it seeks to undertake. The Commission was aware of this possibility during its deliberations but chose a lesser rather than a larger allocation for the organization to avoid putting too much of a burden on a new concept. Congress will undoubtedly discuss this point in its own deliberations. At any rate, we strongly felt that CADO must possess more than just advisory functions if its objectives are to be met. The concept involved would be vitiated if CADO were to become a mere debating society.

*Question 3.* Dr. Kissinger, can you be more explicit in stating your reservations about conditionality? What mechanisms of conditionality did the Commission consider? Why do these concern you? Can other members of the Commission comment?

**Answer.** My two colleagues and I in recording a note on this subject were not opposing the concept of conditioning military assistance on human rights performance. There was absolutely no disagreement within the Commission on the proposition that there must be demonstrable and significant progress in this field in El Salvador. Our note was intended to make the point that it would serve neither the cause of human rights nor what we have identified as fundamental U.S. interests in the security field if a Marxist-Leninist regime were to come to power in El Salvador. The United States Government has many means between a total cutoff and the giving of unconditional aid by which we can make our influence felt.

In considering this issue, the Commission discussed informally methods of incorporating conditionality in legislation but concluded that such specifics would be better left to the administration and the Congress. The language in the report reflects a consensus on the principle to which all agreed. Other members of the Commission may as individuals have concrete proposals as to how conditionality should appear in legislation, but I can only speak for the Commission as a whole.

*Question 4.* Many argue that U.S. military assistance to El Salvador and other Central American countries forestalls a political solution to the current crisis in Central America. Can you explain why you believe that a political solution requires a military shield?

Answer. It was the Commission's judgment that a political solution compatible with the aspirations of the Salvadoran people and supportive of the hopes for a lasting peace in El Salvador must be based on free elections. As set forth in the report, we concluded that the guerrilla proposal for power-sharing prior to the holding of elections would result in the frustration of free choice and, over time, in the dominance of the guerrillas. The problem we then addressed was how to bring about negotiations that would establish conditions for elections in which all elements could participate fairly and without fear. It seemed obvious to us that a major obstacle was the evident hope on the part of the guerrillas for the collapse of U.S. support to the Salvadoran government and for consequent military victory. Thus, if there were to be an eventual agreement on a peaceful political process in which all could take part, the guerrillas would first have to be persuaded that they could not win on the field of battle. The current military stalemate, working as it does to their ultimate advantage, surely leads them to the opposite conclusion. The Commission therefore recommended substantially increased military assistance to break the deadlock and convince the insurgents of the necessity to negotiate on next year's legislative and municipal elections. To withhold military assistance would not foster such negotiations in my opinion; rather, it would bring about intensified violence over the short term and a victory for the Marxist-Leninist guerrillas over the longer term.

With respect to the rest of Central America, your question would presumably apply to Honduras, the only country in the region currently receiving U.S. military assistance. As our report states, Nicaragua under the Sandinistas has built up a huge military advantage over Honduras. It is not clear in the circumstance what purpose denying military assistance to Honduras would serve beyond leaving that country highly vulnerable to Sandinista pressure. Such a withdrawal of U.S. support could not reasonably be expected to advance any other kind of political solution than one on Sandinista terms. As you know, the Commission's report calls for a comprehensive regional settlement, including limits on military assistance, armaments and forces. In the absence of a settlement along those lines, U.S. military assistance to Honduras should be considered an essential element in the security of the region.

*Question 5.* The report has been criticized for underplaying the efforts of the Contadora group. Can you give us your own view of the prospects for the Contadora effort and reasons, if any, for believing that a different U.S. effort should be undertaken?

Answer. Our report should leave no doubt of the Commission's full support for the Contadora process. We called on the United States to encourage that process actively, to carry out genuine consultations with the countries involved, and to continue support for their 21 objectives. The four Contadora group nations are playing a constructive role in helping to define the issues and in demonstrating the commitment of key Latin American governments to the goals of stability and peaceful evolution within the region. I have also testified previously that the Commission consulted with the Contadora countries continuously during its life; we traveled to three of the Contadora group countries and met in New York with the chief of state of the other.

We believe very strongly that the Contadora countries are playing an essential role. Nevertheless, it is not our judgment that this process can be seized upon as a substitute for U.S. policy. As the report indicates, U.S. actions have given impetus to negotiations within the Contadora framework—and should continue to do so. In part, Contadora's prospects will depend on our capacity to sustain a coherent and constructive national policy in Central America.

**MR. KISSINGER'S RESPONSE TO AN ADDITIONAL QUESTION SUBMITTED  
BY SENATOR PELE.**

*Question.* Environmental degradation is considered by many scientists to be one of the most serious problems facing the Caribbean and Central America. For example, El Salvador and Haiti have lost much of their forest cover leading to serious erosion problems, climatic changes, and loss of cropland. I noted with interest the line on p. 58 which called for the need to clarify the legal

status and use of public lands to check deforestation and the degradation of the environment. I would like to have seen, however, a more extensive discussion of the problems of environmental degradation in the Commission's report. Should not U.S. assistance place more focus on the environment?

Answer. Where environmental degradation is a serious problem—and it is particularly so in some of Central America's forest areas—we should of course take that into account in targeting our assistance. Reforestation programs, with which AID and the Peace Corps have had experience in Latin America, would be particularly appropriate.

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**MR. KISSINGER'S RESPONSE TO AN ADDITIONAL QUESTION SUBMITTED  
BY SENATOR PRESSLER**

*Question.* The Commission's recommendation requires a total inflow of \$24 billion in aid over the next 5 years. Yet, the Commission has found no concrete commitments by other nations and international banks to provide an additional \$16 billion beyond the \$8 billion provided by the United States. Is it not appropriate for the United States to assure other contributions before increasing aid to Central America?

Answer. The \$24 billion is not a recommendation but an estimate based on fairly optimistic assumptions of Central America's net foreign exchange requirements over the next 7 years. Our accompanying estimate that non-U.S. Government inflows, including private sector lending and investment, as well as contributions from international financial institutions and third countries, would meet half of the requirement is based on historical trends and current indicators. We are saying that if everything goes more or less according to these patterns, there will still be a need for approximately \$12 billion from the U.S. Government for the calendar years 1984-90—or \$8 billion for fiscal years 1985-89—if these economies are to be brought back to the levels of the late 1970's. To the extent this modest target is not met, the countries of Central America will have great difficulty in creating jobs, ameliorating social injustice, and developing democratic political systems, in turn rendering them even more vulnerable to internal violence and external subversion. We believe this to be the minimal program consistent with the interests of the United States. As for other donors, the international financial institutions give every indication of recognizing Central America's serious predicament, and lending from those sources is being increased. The Commission has also had expressions of interest from other governments which the administration will no doubt wish to pursue.

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**MR. KISSINGER'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED  
BY SENATOR BIDEN**

*Question 1.* Absorptive capacity: Your report recommends a vast expansion—a doubling—of U.S. aid to Central America. An article in this morning's *Wall Street Journal* questions whether that aid could be absorbed effectively—especially given the bureaucratic delays there and here which often accompany our aid. It cites examples, such as a classroom building project in Honduras which is only 14 percent complete after 3 years because of delays in approving desk designs and the requirement that the Honduran president sign all contracts, including those for cement. It also cites the backlog in aid expenditures in the region of \$268 million in economic aid and \$127 million in military aid. And it quotes the Costa Rican finance minister as questioning how much new aid could be handled effectively by the region. What makes you confident that these increased sums can be used speedily and well? If reforms are prerequisite for successful absorption as Professor Diaz-Alejandro argued, is the administration's plan to double and then triple current economic aid over the next 2 years sensible and prudent?

Answer. I refer to the response I gave to a previous question posed by the Chairman on the subject of absorptive capacity. Much of the assistance we recommended would go in the early years as balance of payments support to permit the restoration of import levels necessary to get the private sector moving again. Absorptive capacity is not a question in that context. According to AID, the assistance pipeline to which you refer is of normal size in relation to the

total amount of aid going to Central America, has been kept roughly constant over the last 3 years and is made up for the most part of recent commitments. The same description would seem to apply to the military pipeline.

Some of the reforms alluded to by Dr. Carlos Diaz-Alejandro in his testimony—e.g. exchange rates, tax policy, budget reform, investment incentives—are currently in train in response to conditions associated with our assistance.

*Question 2.* Your report recommends greatly increased military aid to the region and says, among other things, that El Salvador lacks the resources to carry out a United States-style counter-insurgency (such as a lack of mobility through helicopters). There have been reports, however, that even the U.S.-trained Salvadoran forces have slipped backward into older, passive habits which have led to important guerrilla victories. How can you guarantee that they do the right things for their own success? What can we do to pressure them if they continue to resist our advice? Where do we draw the line?

Answer. As we have said in our report, we cannot guarantee success even if all of our recommendations are carried out. But unless the United States makes the kind of commitment we recommend, failure and the ultimate collapse of Central America are much more likely. In the case of military aid to El Salvador, we were struck by two aspects of the issue pointed out by a number of witnesses and briefers. First, the Salvadoran armed forces are underfunded; they do not have sufficient quantities of basic equipment, nor do they have the airlift capability necessary to pursue the type of modern counterinsurgency operations to which you refer. The Commission was of the strong view that if the conditions we specify are met, U.S. assistance should be at a high enough level to permit the Salvadoran military to do its job properly. Second, we heard much of the unpredictability of US aid flows and its effect on the fighting. In order to carry out the prescribed counter-insurgency strategy, the army must be out in the field and aggressively patrolling. Uncertainty about congressional action on funding leads the army, we were told, to husband its resources and adopt a more passive approach. I believe it is time that we decided to furnish adequate resources on a dependable basis to allow prosecution of the war in El Salvador. In that circumstance it would seem to me most likely that our counsel would carry increased weight as the Salvadoran armed forces design their tactics and strategy.

*Question 3.* As you know well, one requirement for a successful and sustainable foreign policy is the support of the American people. That support can be undermined by excessive secrecy or deception or contradictory statements by officials. Right now, for example, there are growing concerns that the U.S. military is building major facilities in Honduras as a prelude either for U.S. intervention or for backdoor financing of U.S. aid to that country. Although your report specifically does not address Honduran military requirements, what do you think of the proposition that we should be open and explicit about our military involvement there?

Answer. As you suggest, the Commission did not examine in detail the issues you raise in this question. I can note that we received no information indicating intentions on the administration's part that would confirm the suspicions to which you refer. It is the case, as the Commission's report states, that the Government of Honduras and many Hondurans to whom we spoke are deeply concerned about that country's security. As I understand it, the facilities under construction there will support training and maneuvers designed to help the Honduran armed forces prepare to defend their own country's security. I, of course, agree that the public should be kept informed of what our government is doing in Honduras. I also believe that there should be a broader understanding in this country of the threat to Honduras's young democracy, and ultimately to U.S. security interests, posed by the militarization of Nicaragua and the Sandinista effort to export Marxist-Leninist revolution.

*Question 4.* As you know, Congress is likely to balk at the huge amounts recommended by your report and the Administration for foreign aid—to Central America and elsewhere. If we are unwilling to fund the whole amount, should we just decide to cut our losses? Or what are the lowest priority efforts which you are recommending?

Answer. I have not studied the administration's overall foreign assistance requests and can only speak for the Commission's recommendations. My colleagues and I do not consider the funding we recommend for Central America to be excessive in any degree. Rather, our proposals constitute a minimal program designed to safeguard fundamental U.S. interests. In our view, we must provide

sufficient support to Central America to restore modest economic growth and sufficient military security to offer hope for a regional political solution. Failure to do enough now will almost certainly assure that we will have to do vastly more in the future. As the Commission's report emphasizes, it was our judgment that all the critical elements of the crisis in Central America are interrelated and must be addressed simultaneously. Thus, for example, deferral of balance-of-payments assistance while going ahead with the social programs we propose would undoubtedly prove unworkable. Overall economic revival is essential to progress toward greater social equality, just as better health and education are of crucial importance to lasting economic progress.

For these reasons I do not believe the Commission could support ranking its recommendations in terms of priorities. Nor could we view "cutting our losses" as promising anything other than extremely grave consequences for the United States. It is our hope that the Congress will consider our program as a whole, and as the careful and realistic proposal it was meant to be.

[Whereupon, at 1:26 p.m., the committee adjourned, subject to call of the Chair.]



## NATIONAL BIPARTISAN REPORT ON CENTRAL AMERICA

WEDNESDAY, FEBRUARY 8, 1984

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:06 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy, Kassebaum, Boschwitz, Hawkins, Pell, Biden, and Dodd.

The CHAIRMAN. I am very happy, on behalf of Senator Pell and myself and the committee, to welcome our distinguished guests. We are particularly pleased to have General Scowcroft before us again. This is not the first time, nor will it be the last time, as long as Presidents of the United States keep drafting you into service.

We meet this morning for our second day of hearings on the report of the National Bipartisan Commission on Central America. Our witnesses today were invited because each has engaged in his own indepth study of the situation in Central America, U.S. interests in that region, and policy alternatives that may be considered to address the region's problems.

In his remarks yesterday, Dr. Kissinger noted the diverse background and perspective that each member of the Kissinger Commission brought to the Commission's effort. What was remarkable, he noted, was that after immersing themselves in Central America's problems, the Commissioners arrived at a remarkable degree of consensus on the nature of the problems affecting the area and the urgency that the United States begin to take steps to deal with those problems.

I believe the public witnesses today will reflect an even greater diversity of opinion in their approaches to the problems of Central America. I am also hopeful that their observations will contribute to the common understanding of the questions that remain paramount in our minds as we consider the Kissinger report.

These questions include: What is the urgency of the Central America situation today, and what are the risks of not acting to deal with that situation? Can we undertake a development effort before peace is achieved in the region, or can the economic problems of this region be postponed that long?

Is a meaningful peace within reach? What is the role of the U.S. military assistance in the overall effort that is being proposed? And how can we condition assistance most effectively so that governments will take the necessary steps to straighten out their economic houses

and promote social reforms and invigorate their legal institutions and practices?

No proposal will be without areas to criticize. I do not believe it is our task at this time to quibble over one or another programs proposed in the Kissinger Commission report. Rather, it is imperative that we arrive at a general understanding of what can be done to deal with problems in Central America.

We welcome the contribution of our distinguished panelists in assisting us in this effort.

Senator Pell.

Senator PELL. I join with our chairman in welcoming the panel, particularly General Scowcroft. I have always enjoyed and benefited from his testimony. I look forward to hearing from you all very much indeed. I hope you will not hold back from new and innovative ideas.

I am a little concerned that most of the witnesses for the panel start with the premise that we have a vital strategic interest in Central America. There are some who would question that very premise. I hope that will be examined as well.

Thank you.

The CHAIRMAN. The committee has two distinguished panels of witnesses who will deal with the Central America policy question. The first panel consists of James R. Greene, Jr., dean of the Business School, Monmouth College, N.J., formerly president of the American Express International Banking Group, and Lt. Gen. Brent Scowcroft, formerly National Security Adviser to President Gerald Ford, recently Chairman of the President's Commission on Strategic Forces.

Mr. Greene and General Scowcroft directed the Atlantic Council's Working Group on the Caribbean Basin Initiative [CBI], and bring an unusual perspective to the analysis they can make for us in their testimony.

General Scowcroft.

**STATEMENT OF LT. GEN. BRENT SCOWCROFT, U.S. ARMY [RETIRED], COCHAIRMAN, ATLANTIC COUNCIL WORKING GROUP ON THE CARIBBEAN BASIN, FORMER ADVISER TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS; AND JAMES R. GREENE, COCHAIRMAN, ATLANTIC COUNCIL WORKING GROUP ON THE CARIBBEAN BASIN, DEAN OF THE BUSINESS SCHOOL, MONMOUTH COLLEGE, N.J., ACCCOMPANIED BY CHRISTOPHER H. BROWN, SENIOR FELLOW, ATLANTIC COUNCIL OF THE UNITED STATES; AND ROBERT KENNEDY, PROFESSOR, U.S. ARMY WAR COLLEGE**

General Scowcroft. Thank you very much, Mr. Chairman. On behalf of the Caribbean Basin Working Group of the Atlantic Council of the United States, we would like to thank you for the invitation and the opportunity to testify before the Committee on Foreign Relations.

As the cochairman of the Atlantic Council's Working Group on the Caribbean Basin, we supervised the efforts of a bipartisan group of regional and foreign policy experts of a breadth—and my descrip-

tion would be similar to that that you indicated Dr. Kissinger said yesterday: A very broad spectrum of some 50 businessmen bankers, former diplomats, government officials, academicians, and scholars.

The focus of this 2-year project that we undertook has been on the changing nature, problems, and opportunities of the Caribbean Basin, United States and Western interests there, and the implications of recent trends for U.S. policy.

With the widely diverse views and perspectives of the members of this working group, the constructive debates were initially quite broadly divergent. However, as we continued through our analysis of data, the detailed studies commissioned by individual members, and many meetings of the working group, augmented by consultations and correspondence with Caribbean Basin officials and with private sector representatives, the working group reached a consensus on general findings and policy recommendations.

Because of the broad expertise and the bipartisan composition of the working group, the Atlantic Council believes the consensus achieved during the 2-year project represents a mainstream view capable of garnering broadly based domestic and international support. The Atlantic Council further believes that the need for a mainstream bipartisan view is evidenced by the recent history of U.S. policy formulation toward the Caribbean Basin. As the chairman of the Atlantic Council, Ambassador Kenneth Rush, stated in the forward to our policy paper:

United States policy has suffered from chronic conflict between soft-headedness and bull-headedness, between those who believe that sweetness and light can somehow prevail against Soviet weapons and those who believe that military force and assistance can solve deep-seated economic and social problems and win the hearts and minds of people. It is the ebb and flow of this conflict in the public, the Executive Branch, and above all, in the Congress, that constantly vitiates the possibility of success for either a hard or a soft-line policy.

A basic problem for the U.S. Government is to develop policies which are enlightened and realistic, and to implement them with the continuity necessary for any long-term effect. We as cochairmen believe that the collegially developed conclusions and recommendations in our policy paper, entitled "Western Interests and U.S. Policy Options in the Caribbean Basin," does provide a sound approach to resolving this twofold problem. Consequently, at the request of the Kissinger Commission, the Atlantic Council provided copies of its working papers, findings, and conclusions and recommendations to assist them in their important efforts.

We will summarize very briefly, on behalf of the working group, the policy recommendations and our written statement to the committee, and then we would be pleased to respond to any questions.

The working group found that the Caribbean Basin's long-term systemic problems and political instability, exacerbated by economic disruptions and crises, have been further aggravated by Cuban and Soviet penetration and support for revolutionary forces. The resulting environment presents opportunities for the emergence of governments antithetical to U.S interests.

An East-West dimension has been added to an already complex North-South problem. The tendency toward simple, piecemeal solutions must be resisted. These problems are complex and will require

definite effort to develop the coordinated approach needed to maintain the consistent level of sustained interest required.

The working group's conclusions and recommendations propose a two-pronged approach in addressing the regional crises: Immediate security interests and political and economic cooperation, which I will discuss; and financial management and economic development, which my colleague Jim Greene will discuss.

The United States should pursue its broadly defined security interests through regional development. Solid support for socioeconomic development must be a major component of long-term U.S. security policy in the Caribbean Basin. The United States should embark on a comprehensive, imaginative program for Caribbean Basin economic development.

Such a plan should be based on the strong desire of the countries in the area to participate actively and cooperatively in the design and implementation stages. The plan should focus on the development of infrastructure, agriculture, and exports. It should promote institution building and technical training; foster both private and public sector development; and be supported by multilateral as well as bilateral assistance.

In conjunction with an increased emphasis on socioeconomic development, the United States should encourage enhanced political participation. The President and the Congress should support the development of broadly based representative forms of government and democratic processes, with local institutions building upon the history and culture of individual countries.

Most members of the working group believe that in some Spanish-speaking countries, despite historical and cultural tendencies toward more authoritarian models, trends suggest an increasing demand by the populace for political participation.

The third recommendation concerns the military basing of foreign, hostile forces. The United States should join with other Caribbean Basin countries to oppose the establishment in the region of additional Soviet or Cuban military bases, the major expansion of existing ones, or increased Soviet and Cuban access to existing facilities. The United States should insist that the Soviet Union honor the three accords that do limit its military capabilities in Cuba.

As a Nation, we should selectively extend our security assistance efforts where warranted in the region to governments that are compatible with U.S. interests. In deciding a government's compatibility with U.S. interests, the working group has suggested four rough guidelines which could be applied with due concern for the individual circumstances:

First, a government should not grant access to military facilities to hostile powers, nor follow a policy of automatic alignment with the Soviet Union;

Second, the government should not interfere in the internal affairs of other states;

Third, the government's legitimacy should derive not from force, but from responsiveness to the will of the people;

And fourth, the government should not engage in the gross and consistent violation of the basic human rights of its population.

The United States should be disposed to increase military education and training programs for the states in the region which request it. The role of the U.S. Coast Guard should be expanded in the Eastern Caribbean.

Our strategic security can be improved by establishing a clearing-house for the continued sharing of intelligence on Soviet and Cuban activity in the region. The United States and its allies should consult regularly and, where practical, coordinate action in regard to Soviet and Cuban military and subversive penetration in the area. Some members of NATO, together with appropriate regional powers, should be encouraged to extend military assistance in the area.

In its relations with radical nationalist regimes, the working group recommends that U.S. policy strive to keep radical regimes of the right or the left integrated into the Western economic system and separate from the Soviet strategic network.

A policy of confrontation will often fail to modify regime behavior in the desired direction, instead driving the regime further into a shell of distrust and hostility. There are times when a wait and see attitude will be preferable to sudden reaction to an immediate crisis.

The United States should concentrate on a counterinterventionist policy of preventing the Soviet Union, Cuba, and Nicaragua from arming and supporting guerrilla forces in the region. However, most of the members of the working group believe that generally in the Caribbean Basin a full assessment of the likely cost and ramifications will most often tilt against a policy of paramilitary covert action.

The United States should continue to press vigorously for an end to Nicaraguan subversion in other countries. At the same time, a flexible diplomatic posture that is open to negotiating the major bilateral and regional differences as a possible means of weaning Nicaragua away from Cuba and the Soviet Union should be maintained.

The United States should make increasingly strong efforts to probe for possibilities of inducing the Cubans to cooperate seriously in the peaceful solutions of conflicts in Central America and southern Africa. If significant progress can be made on these issues, the United States should reconsider its policies toward Cuba. If progress is not forthcoming, the United States should explore further appropriate sanctions with its Western European allies, while not excluding the possibility of other forms of pressure on Cuba.

The working group believes regional political cooperation and peacekeeping requires a more multilateral approach in today's environment, as is discussed in our policy paper. The United States should be responsive to efforts of regional countries to coordinate approaches to the Caribbean Basin that are consistent with fundamental U.S. objectives. The greater nationalism and assertiveness of the nations of the region and the entrance of other powers make it difficult and more costly for the United States to gain the outcomes it seeks by working alone.

Cultural exchanges and training should be used to improve the capabilities of the leaders, technicians, and managers of the Caribbean states. The United States should expand its government-sponsored scholar programs and insure that a higher proportion of funds are made available to the less privileged for study in the United States in

technical and vocational programs. The United States should significantly increase its efforts to train middle-level technicians, managers, and future leaders and to familiarize them with the United States.

Many of the Caribbean countries have creditable human rights records. However, under the stress of economic and social maladjustments, some have violated their commitments to protect the civil and political rights of their people. The United States should, on appropriate occasions, make known its concern for the improvement of human rights practices by offending Caribbean governments.

Its attitude toward indiscriminate slaughter of civilians, from whatever quarter, should be unequivocal. If geopolitical interests require cooperation with regimes in countries where human rights are being systematically violated, the United States should nevertheless exert such leverage as it can to ameliorate abuses of personal, political, and trade union rights.

The United States should substantially increase the hours of programming and the number of broadcast languages to the region, so as to increase understanding of events and of U.S. policies. Soviet and Cuban information programming have become much more sophisticated and subtle. The United States needs to counter this propaganda by bringing objective information to listeners in the region.

Now my colleague, Mr. Greene, will continue with the economic and financial aspects.

The CHAIRMAN. Thank you very much, General Scowcroft.

Mr. Greene.

MR. GREENE. Financial management and economic initiatives must coincide with the policy recommendations for pursuing regional security interests and developing political and economic cooperation. While the working group applauds the Caribbean Basin Initiative, the overwhelming consensus of our group was that much more must be done by the United States.

Alleviating the debt crisis, as you know, is a major problem which must be addressed by various and multiple methods. Industrial countries must resume sustained growth if the Caribbean Basin nations are to recover from their deep economic recession. Only then can their markets expand, terms of trade improve, and their attractiveness to investors be rekindled.

A most pressing problem facing the region is the management of the balance of payments. Alleviation of the debt crisis is a sine qua non for the reestablishment of an environment where investment and growth can occur. In the eighties and beyond, a more balanced mix between official and private lending is required, both to manage the immediate liquidity crisis and to finance future growth.

As discussed in our policy paper, governments and multilateral institutions will of necessity have to play a greater role in steering financial relations between OECD countries and the developing nations of the region. International capital markets self-evidently need to be stabilized.

The IMF, World Bank, commercial banks, central banks, and national regulatory agencies and governments of the OECD [Organization for Economic Cooperation and Development] countries should embark upon a process of consultation to search for better ways to collect and disseminate information regarding the external debt of

the area and, more generally, to bring greater stability to international capital markets.

The rescheduling of public and private debt should take place, since it will inevitably be necessary at some point in time to bring service charges into line with these countries' capacity to pay. Debt rescheduling should cover a sufficient number of years so that economic management can proceed within these countries in an environment of relative predictability. The developing countries, on the other hand, must balance their expenditures with available financing.

The need for long-term development capital cannot be overemphasized. The working group proposed several recommendations, which are discussed in our policy paper, to obtain the sustained inflows of long-term funds that future growth will require.

Since substantial long-term flows from commercial banks can no longer be expected by most countries in the region during the next several years, official institutions, multilateral and bilateral, will have to take the lead in making new capital available. To facilitate increased lending to the Caribbean Basin, the overall resources of the World Bank and the Inter-American Development Bank [IADB] we recommend be increased.

In order to stimulate foreign direct investment, OPIC [Overseas Private Investment Cooperation] and the Export-Import Bank of the United States should concentrate an increasing percentage of their activities in this region. The private sector itself must play an important role in fostering economic development.

The current level of political conflict and uncertainty, however, in Central America is a severe impediment to economic development. The United States should seek a reduction in tensions in the area that meets its security objectives, as an important contribution to enhancing the effectiveness of development assistance and to creating an environment conducive to private savings and investment.

The working group applauds the adoption by the U.S. Congress of the free trade area provision contained in the Caribbean Basin Initiative. Expanded trade opportunities for the Caribbean Basin countries are essential if balance of payments problems are to be resolved and growth sustained over the long run. A majority of the members of our working group believe that all countries of the region, excluding Cuba, that wish to participate in the free trade area should be permitted to do so on a nonpolitical, nondiscriminatory basis.

Additionally, foreign assistance should be oriented toward, among other objectives, toward supporting increasing intraregional trade.

The working group believes that the United States needs to gain increasing control over the flow of foreign immigrants across its borders, and to that end suggests that the U.S. Congress should approve the Simpson-Mazzoli bill as part of the effort to gain more control. Over the longer term, however, emigration pressures can be modified and moderated only if the Caribbean Basin nations achieve sustained economic expansion and reduced population growth within their area.

The working group further recommends that the United States use education and training to expand the transfer of technology from developed countries to regional developing countries. The U.S. private sector and the educational community should explore with the Con-

gress the utility of tax incentives targeted at U.S. firms active in the Caribbean Basin for the education and training of Caribbean Basin nationals.

As discussed in detail in our policy paper, the United States should take a number of steps to assist the smaller Caribbean Basin nations, as well as the major oil producers of the region, to develop appropriate energy resources. The U.S. private sector should continue to be a major source of technology and capital for this effort.

Senator Percy and members of the committee, General Scowcroft and I have briefly summarized the recommendations for U.S. policy toward the Caribbean nations which were raised by the Atlantic Council Caribbean Working Group's paper. Other groups, particularly the Kissinger Commission, have subsequently emphasized the need for even greater economic assistance than we had envisioned.

I understand that a copy of the Atlantic Council paper has been submitted for your review. General Scowcroft, our co-rapporteur Robert Kennedy to my right, are available to answer any questions you may have. We are happy you have invited us.

[General Scowcroft's and Mr. Greene's prepared statement follows:]

**PREPARED STATEMENT OF LT. GEN. BRENT SCOWCROFT AND JAMES R. GREENE<sup>1</sup>**

On behalf of the Caribbean Basin Working Group of the Atlantic Council of the United States, we would like to thank you for the invitation and opportunity to testify before the committee.

As Co-Chairmen of the Atlantic Council's Working Group on the Caribbean Basin, we supervised the efforts of a bipartisan group of regional and foreign policy experts, including some 50 businessmen and bankers, former diplomats and government officials, academicians, and scholars. The focus of this 2-year project has been on the changing nature, problems, and opportunities of the Caribbean Basin, United States and Western interests there, and the implications of recent trends for U.S. policy.

With the widely diverse views and perspectives held by members of the Working Group, the constructive debates were initially divergent. However, through analysis of data, detailed studies by individual members, and many meetings, augmented by consultations and correspondence with Caribbean Basin officials and private sector representatives, the Working Group has reached a consensus on general findings and policy recommendations. Because of the broad expertise and bipartisan composition of the Working Group, the Atlantic Council believes the consensus achieved during the 2-year project represents a mainstream view capable of garnering broadly based domestic and international support. The Atlantic Council further believes that the need for a mainstream, bipartisan view is evident by the recent history of U.S. policy formulation toward the Caribbean Basin. As the Chairman of the Atlantic Council, Ambassador Kenneth Rush, stated in the foreword of the policy paper: "United States policy has suffered from chronic conflict between softheadedness and bullheadedness, between those who believe that sweetness and light can somehow prevail against Soviet weapons and those who believe that military force and assistance can solve deep-seated economic and social problems and win the hearts and minds of people. It is the ebb and flow of this conflict in the public, the Executive Branch, and above all, in the Congress that constantly vitiates the possibility of success for either a hard- or soft-line policy."

A basic problem for the U.S. Government is to develop policies which are enlightened and realistic, and to implement them with the continuity necessary for any long-term effect. We as Co-Chairmen believe that the collegially developed conclusions and recommendations in the Atlantic Council's Policy Paper "Western Interests and U.S. Policy Options in the Caribbean Basin" provide an excellent approach to resolving this two-fold problem. Consequently, at the request of

<sup>1</sup> For the purposes of the Atlantic Council's policy project, the Caribbean Basin was defined as including, in addition to the United States, the Caribbean Islands and Central America, Colombia, Guyana, Mexico, Panama, Suriname, and Venezuela.

the Kissinger Commission, the Atlantic Council provided copies of its working papers, findings, conclusions, and recommendations to assist their important efforts.

We will briefly summarize, on behalf of the Working Group, its policy recommendations. After our prepared remarks, we would be pleased to answer any questions.

The countries of the Caribbean Basin confront serious problems. Poverty, population pressures, inflation, inequalities of opportunity, and inequities in the distribution of income and wealth frequently have resulted in pressures for social and economic change. In a number of countries, traditional political, economic, and social structures have been unable to accommodate needed reform. The combined international factors of debt, fluctuating commodity prices, trade protectionism, and uncertain recovery in the industrial countries will shape the region's social and political environment in the coming years. The resulting environment presents opportunities for Cuban and Soviet penetration and the emergence of governments antithetical to U.S. interest, thus adding an East-West dimension to an already complex North-South problem. The tendency toward simple, piecemeal solutions must be overcome. These problems are complex and will require definite effort to develop the coordinated approach needed to maintain the consistent level of sustained interest required.

The Working Group's conclusions and recommendations propose a two pronged approach in addressing the regional crises: immediate security interests and political and economic cooperation which I (Brent Scowcroft) will address and financial management and economic development which James Greene will discuss.

The United States can best meet its immediate security interests and develop regional political and economic cooperation through a combination of initiatives and programs. The United States should pursue its broadly defined security interests through regional development. Solid support for socio-economic development must be a major component of long-term U.S. security policy in the Caribbean Basin. The United States should embark on a comprehensive and imaginative program for Caribbean Basin economic development. Such a plan should be based on the strong desire of the countries in the area to participate actively and cooperatively in the design and implementation stages. The plan should focus on the development of infrastructure, agriculture, and exports; promote institution building and technical training; foster both private and public sector development; and be supported by multilateral as well as bilateral assistance.

In conjunction with an increased impetus on socio-economic development, the United States should encourage enhanced political participation. The President and Congress should support the development of broadly-based representative forms of government and democratic processes, with local institutions building upon the history and culture of individual countries. In many of the countries of the English-speaking Caribbean, such an approach would contribute to a strengthening of existing democratic institutions. Most members of the Working Group believe that, in some Spanish-speaking countries, despite historical and cultural tendencies toward more authoritarian models, trends suggest an increasing demand by the populace for political participation.

The third recommendation concerns military basing of foreign, hostile forces. The United States should join with other Caribbean Basin countries to oppose the establishment in the region of additional Soviet or Cuban military bases, the major expansion of existing ones, or increased Soviet and Cuban access to existing facilities. The United States should insist that the Soviet Union honor the three accords that limit its military capabilities in Cuba. The United States should also make clear to the Soviet Union and Cuba that it strongly opposes their establishing military bases elsewhere in the Caribbean Basin.

The United States should selectively extend its security assistance efforts where warranted in the region to governments which are compatible with U.S. interests. In deciding a government's compatibility with U.S. interests, the Working Group suggests four rough guidelines could be applied: First, a government should not grant access to military facilities to hostile powers nor follow a policy of automatic alignment with the Soviet Union; second, it should not interfere in the internal affairs of other states; third, the government's legitimacy should derive not from force but from its responsiveness to the will of the people, optimally as expressed through free elections; fourth, the government should not engage in the "gross and consistent" violation of the basic human rights of its population. In

the past, the military elites have generally been conservative and allied with traditional power structures. In recent years, however, there have been indications of an awakening of social and political conscience within some sectors of the military. This awakening creates opportunities for bringing about changes that are essential if political disorder and disintegration are to be avoided.

The United States should be disposed to increase military education and training programs for the states in the region that request it. The role of the U.S. Coast Guard should be expanded in the Eastern Caribbean as part of the security assistance effort.

Our strategic security can be improved by establishing a clearing-house for the continuous sharing of intelligence on Soviet and Cuban activity in the region. The United States and its allies should consult regularly, and, where practical, coordinate action in regard to Soviet and Cuban military and subversive penetration in the area. A coordinating mechanism should be established to facilitate doing so. Some members of NATO, together with appropriate regional powers, should be encouraged to extend military assistance in the area.

In its relations with radical nationalist regimes, the Working Group recommends that U.S. policy strive to keep radical regimes of the left or right integrated into the Western economic system and separate from the Soviet strategic network. A policy of confrontation will often fail to modify regime behavior in the desired direction, instead driving the regime further into a shell of distrust and hostility. There are times when a "wait-and-see attitude will be preferable to sudden reaction to an immediate crisis.

The United States should concentrate on a "counter-interventionist" policy of preventing the Soviet Union, Cuba, and Nicaragua from arming and supporting guerrilla forces in the region. However, most of the members of the Working Group believe that, generally, in the Caribbean Basin, a full assessment of the likely costs and ramifications will most often tilt against a policy of paramilitary covert action. Paramilitary covert action in Latin America tends to become public and thus be counterproductive.

The United States should continue to press vigorously for an end to Nicaraguan subversion in other countries. At the same time, the United States should maintain a flexible diplomatic posture that is open to negotiating the major bilateral and regional differences, as a possible means of weaning Nicaragua away from Cuba and the Soviet Union.

The United States should make increasingly strong efforts to probe for possibilities of inducing the Cubans to cooperate seriously in the peaceful solutions of conflicts in Central America and southern Africa. If significant progress can be made on these issues, the United States should reconsider its policies toward Cuba. If progress is not forthcoming, the United States should explore appropriate sanctions with its Western European allies, while not excluding the possibility of other forms of pressure on Cuba.

The Working Group believes regional political cooperation and peacekeeping requires a more multilateral approach in today's environment. The United States should be responsive to efforts of regional countries to coordinate approaches to the Caribbean Basin that are consistent with fundamental U.S. objectives. The greater nationalism and assertiveness of the nations of the region, and the entrance of other powers, makes it difficult and more costly for the United States to gain the outcomes it seeks by working alone. Multilateral diplomacy, to the extent that it can be effective, may frequently be preferable to a unilateral approach to the region's security problems.

The United States should encourage the Contadora Group (Colombia, Mexico, Panama, Venezuela) to continue its efforts to find political solutions to the conflicts in Central America. We should not automatically exclude proposals for negotiations between political adversaries that go beyond a simple preparation for national elections. In addition, the United States should encourage and assist the OAS to play a constructive role in reducing tensions in the Basin and in providing or policing guarantees that are part of any treaties or settlements. The United States should also seek the establishment of international observer groups to monitor arms traffic and military movement across Central American frontiers. In appropriate circumstances and as elements of broader peaceful settlements, the United States should support multinational peacekeeping forces that serve as buffers and to maintain order.

Cultural exchanges and training should be used to improve the capabilities of the leaders, technicians, and managers of the Caribbean States. The United States should expand its government-sponsored scholar programs and insure that

a higher proportion of funds are made available to the less privileged for study in the United States in technical and vocational programs. The countries of the region lack sufficient adequately trained leadership and middle-level cadres for the task of building more prosperous and stable societies. USIA and other involved agencies should expand their leadership training programs in the region. They should reach across the social and professional spectrum, to include business and labor leaders, public administrators, academics, journalists, military officers and clerics. The United States should significantly increase its efforts to train middle-level technicians, managers, and future leaders and to familiarize them with the United States.

The United States and Western European labor unions (including the American Institute for Free Labor Development), human rights and other humanitarian organizations and foundations should maintain and expand their activities in the region.

Many of the Caribbean countries have creditable human rights records. However, under the stress of economic and social maladjustments, some have violated their commitments to protect the civil and political rights of their people. The United States should, on appropriate occasions, make known its concern for the improvement of human rights practices by offending Caribbean governments. Its attitude toward indiscriminate slaughter of civilians from whatever quarter should be unequivocally clear. If geopolitical interests require cooperation with regimes in countries where rights are being systematically violated, the United States should nevertheless exert such leverage as it can to ameliorate abuses of personal, political and trade union rights.

The United States should encourage international observation of human rights practices in Caribbean countries charged with abuses. For this purpose the United States should support investigation through OAS machinery, in particular through action by the Inter-American Commission on Human Rights.

The United States should substantially increase the hours of programming and the number of broadcast languages to the region so as to increase understanding of events and of U.S. policies. While the Voice of America enjoys a high reputation as a timely and dependable source of information, Soviet and Cuban information programming has become more sophisticated and subtle. The United States needs to counter this propaganda by bringing objective information to listeners in the region.

Financial management and economic initiatives must coincide with the policy recommendations for pursuing regional security interests and developing political economic cooperation. While the Working Group applauds the Caribbean Basin Initiative, the overwhelming consensus was much more must be done by the United States. Alleviating the debt crisis is a major problem which must be addressed by multiple and various methods. The industrial countries must resume sustained growth if the Caribbean Basin nations are to recover from their deep economic recession. Only then can their export markets expand, their terms of trade improve, and their attractiveness to investors be rekindled.

A most pressing problem facing the region is the management of the balance of payments. Alleviation of the debt crisis is a sine qua non for the reestablishment of an environment where investment and growth can occur. In the 1980's, a more balanced mix between official and private lending is required, both to manage the immediate liquidity crises and to finance future growth. Governments and multilateral institutions will have to play a greater role in steering financial relations between the OECD countries and the developing nations of the region. The International Monetary Fund needs to be strengthened if it is to contribute an adequate level of resources to the region. The U.S. Congress should approve the substantial increase in IMF resources negotiated by the IMF member nations.

International capital markets need to be stabilized. The IMF, World Bank, commercial banks, central banks and national regulatory agencies and governments of the OECD countries should embark upon a process of consultation to search for better ways to collect and disseminate information regarding external debt, and, more generally, to bring greater stability to international capital markets. National regulatory authorities should devise lending criteria which inhibit imprudent expansions of exposure or destabilizing, sudden retrenchments.

The rescheduling of public and private debt should take place when it is necessary to bring service charges into line with a country's capacity to pay. Debt rescheduling should cover a sufficient number of years so that economic management can proceed in an environment of relative predictability.

The developing countries must balance their expenditures with available financing. The developing nations of the Caribbean Basin should, as necessary and in agreement with the IMF, the World Bank, and the Inter-American Development Bank, implement policies to stabilize their external and internal accounts and accommodate their payments positions to the prospectively lower level of foreign borrowing by restraining imports, promoting exports and increasing domestic savings.

The need for long-term development cannot be overemphasized. The Working Group proposed several recommendations to obtain the sustained inflows of long-term capital that future growth will require. Since substantial long-term flows from commercial banks cannot be expected by most countries in the region during the next several years, official institutions—multilateral and bilateral—will have to take the lead in making capital available. To facilitate increased lending to the Caribbean Basin, the overall resources of the World Bank and the Inter-American Development Bank should be increased in real terms. As first steps, the U.S. Congress should promptly approve the pending replenishments of the World Bank's International Development Association (IDA) and the Inter-American Development Bank. Regional aid institutions, including the Caribbean Development Bank and the Central American Bank for Economic Integration, should receive the support of AID and of the World Bank and the IADB. In addition, U.S. economic assistance to the Caribbean Basin should be expanded. Bilateral aid programs should be coordinated with other bilateral and multilateral donors.

In order to stimulate foreign direct investment, the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank should concentrate a rising percentage of their activities in the region. The private sector can play an important role in fostering economic development.

External donors should give priority to training local manpower. At present, the ability of both the private and public sectors in some countries to absorb financial resources is hampered by the inadequate skills of labor and management.

The current level of political conflict and uncertainty in Central America is a severe impediment to economic development. The United States should seek a reduction in tensions in Central America that meets its security objectives, as an important contribution to enhancing the effectiveness of development assistance and to creating an environment conducive to private savings and investment.

The Working Group applauds the adoption by the U.S. Congress of the Free Trade Area provision contained in the CBI legislation. Expanded trade opportunities for the Caribbean Basin countries are essential if balance of payments problems are to be resolved and growth sustained over the long run. A majority of the members of the Working Group believe that all countries of the region (excluding Cuba) that wish to participate in the Free Trade Area and its expanded version should be permitted to do so on a nonpolitical, non-discriminatory basis. The objective of the free trade areas is to increase economic integration and political understanding, not to drive countries further apart.

Foreign assistance should be oriented, among other objectives, toward supporting increased intra-regional trade. Bilateral and multilateral aid programs should seek to promote export-oriented industries and agriculture. This can be accomplished by directly promoting private-sector firms, as well as by assisting the public sector.

The Working Group believes that the United States wants to gain increased control over the flow of foreign immigrants across its borders. The U.S. Congress should approve the Simpson-Mazzoli Bill, as part of a needed effort to gain increased control over the flow of foreign immigrants. Over the long term, however, emigration pressures can be moderated only if Caribbean Basin countries achieve sustained economic expansion and reduced population growth.

The U.S. Immigration and Naturalization Service should be enlarged and the quality of its personnel upgraded. Potential employers of nonresident aliens should be required to demonstrate both a need for foreign labor and evidence that they cannot fill this need by using U.S. citizens and legal resident aliens. Amnesty should be granted to immigrants living in the United States since a specified date.

The Working Group recommends the United States use education and training to expand the transfer of technology from developed countries to regional developing economies. The U.S. private sector and educational community should explore with Congress the utility of tax incentives targeted at U.S. firms active in the

Caribbean Basin for the education and training of Caribbean Basin nationals. The United States should take a number of steps to assist the smaller Caribbean Basin states as well as the major oil producers of the region to develop their energy resources. The U.S. private sector should continue to be a major source of technology and capital for energy development in the Caribbean Basin. Moreover, the U.S. Government, in cooperation with the World Bank and appropriate regional organizations, should support increased World Bank financing for energy projects; encourage the formation of broadly owned private sector Regional Energy Development Corporations to implement renewable and conventional energy supply and use programs; and facilitate the transfer of technology for exploiting alternative energy resources. AID should also work to develop energy projects that can utilize the funds generated by the joint oil financing facility of Mexico and Venezuela. The Department of Energy should make judicious use of the contracts of the Strategic Petroleum Reserve to provide a market for Mexican and Venezuelan oil, as a means of enhancing future U.S. energy security and of strengthening bilateral ties.

Senator Percy, members of the committee, we have briefly summarized the recommendations for U.S. policy toward the Caribbean Basin which were developed by the Atlantic Council's Caribbean Basin Working Group. I believe it is interesting to note that other groups, particularly the Kissinger Commission, have subsequently endorsed the need for greater economic assistance to the region. A copy of the Atlantic Council's Policy Paper is submitted for your review and use. We are prepared to answer any questions you might have. Thank you.

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Working Group on the Caribbean Basin**

James R. Greene and Brent Scowcroft, *Co-Chairmen*  
Richard E. Feinberg, *Rapporteur*  
Robert Kennedy, *Co-Rapporteur*  
Joseph W. Harned, *Project Director*

*Foreword by Kenneth Rush*

TO APPEAR IN PART IN  
**The Atlantic Community Quarterly**

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The Atlantic Council of the United States, now in its 23rd year, is a national and bipartisan center for the formulation of policy recommendations on the problems and opportunities shared by the democracies of Western Europe, North America, Japan, Australia and New Zealand. Its purpose is to promote understanding of major international security, political, and economic issues; foster informed public debate; and make recommendations to the Executive and Legislative branches of the U.S. Government and to the appropriate international organizations.

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# WESTERN INTERESTS and U.S. POLICY OPTIONS in the CARIBBEAN BASIN

Report of the Atlantic Council's  
Working Group on the Caribbean Basin

---

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*and*  
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Washington, DC  
19 October 1983

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## FOREWORD

The facts of life in the Caribbean Basin impose a bumpy road full of detours toward achievement of the goals of social, economic, and political development and of the friendly and mutually beneficial good neighborly relations in the whole area, including the U.S.

The unpleasant facts include over-population and, in most countries, inadequate material resources and skilled manpower, together, in some countries, with a tradition of one-man government, changed ordinarily by force. These problems have, in recent years, been compounded by the revolution of rising expectations, increasing unrest, adverse terms of trade, a stagnant global economy, over-optimistic borrowing and lending, and Soviet-Cuban overt and covert efforts to extend Soviet strategic, political and psychological influence in the area.

Our desire to help our neighbors to help themselves is frustrated by the polarization in many countries between rich and poor, right and left, as well as the lack of a middle class and of enlightened middle-of-the-road governments.

The ability of the United States to cope with these problems has been handicapped by general ignorance of the area on the part of the public, the media, the Congress, and the higher echelons of successive Administrations.

United States policy has suffered from chronic conflict between soft-headedness and bullheadedness, between those who believe that sweetness and light can somehow prevail against Soviet weapons and those who believe that military force and assistance can solve deep-seated economic and social problems and win the hearts and minds of people. It is the ebb and flow of this conflict in the public, the Executive Branch, and, above all, in the Congress that constantly vitiates the possibility of success for either a hard- or a soft-line policy.

A basic problem for the U.S. Government is to find policies which combine enlightenment and realism, not as uneasy and unstable partners, but as a firmly forged single element. To the extent that such policies can be found they may be expected to receive wide public support, in this country and elsewhere in the Caribbean area, to constitute a counter-force to Soviet influence and to lead the way toward stability, progress and a good neighbor relationship.

Those members of the Working Group who have had to deal in practice with the problems involved know well the difficulty of finding such policies and securing official and Congressional acceptance of them. Nevertheless, this Policy Paper is a modest attempt to contribute toward that end. I strongly recommend it to our readers and all those interested in the urgent and complex problems of the Caribbean Basin.

\* \* \* \* \*

I want to take this opportunity also, on behalf of the Atlantic Council, to extend my profound thanks to the Tinker Foundation, the Xerox Foundation, the George Olmsted Foundation, the Agency for International Development, and the Department of Defense, whose financial support made this project

possible. The views, opinions, and findings contained in the Policy Paper are those of the Atlantic Council's Working Group on the Caribbean Basin and should not be construed as an official AID or Department of Defense position, policy, or decision unless so designated by other official documentation.

My warm thanks also go to the two Co-Chairmen, James R. Greene and Brent Scowcroft, who conducted the meetings with their usual insight and skill; the Rapporteur, Richard E. Feinberg, and Co-Rapporteur, Robert Kennedy, who faced the difficult task of finding a consensus in a large group of individuals with differing perspectives and experiences; the Project Director, Joseph W. Harned; and all the distinguished Members of the Working Group (listed on page xi) who have contributed freely of their time and their talents in order to complete this excellent report.

As in other publications of the Atlantic Council, every individual member of the Working Group does not necessarily subscribe to every argument expressed or every position taken in the Policy Paper. We believe, however, that the Paper does seek to reflect the bipartisan consensus that emerged from the discussions and correspondence. The Group worked hard to produce this collegial "white paper" and a forthcoming book of substantiating analyses. I would emphasize the collegial nature of the paper; it is not the product of either Chairman or Rapporteur but truly a group product, hammered out in months of debate reflecting widely divergent points of view on successive drafts. Given the breadth of the issues, we take satisfaction in having concluded the work with substantial consensus on the part of the members.

I would also like to express the Council's appreciation of the many individuals who, in a personal capacity, provided constructive critiques in the course of the project. They bear no responsibility whatever for the final product; but their participation in the process at one stage or another was most helpful: Misael Pastrana Borrero, Harry Carr, William G. Demas, Thomas H. Etzold, Robert Fenton, Maurice A. Ferré, Francis X. Gannon, W. H. Krome George, James A. Gravette, James Holway, Peter B. Johnson, Jorge Ruiz Lara, Val T. McComie, John P. Merrill, Rick Moran, Felipe Pazos, Marco Pollner, Gert Rosenthal, Charles Skeete, Jorge Sol, Harry E. B. Sullivan, Herbert B. Thompson, Gustavo J. Vollmer, and John Weltman. Finally, my special thanks go to Jose Luis Restrepo, who encouraged the Council to undertake the two-year project at its inception.

Only by free and informed discussion of our problems and opportunities can we hope to find the solutions that history demands of us. It is in that spirit that I commend this Policy Paper and the forthcoming book of related studies to the U.S. Executive Branch and the Congress for action and to the interested public for study and debate.



KENNETH RUSH

*Chairman*

*The Atlantic Council of the United States*

## PREFACE

The fall of the Somoza government in Nicaragua and the rise to power of the Marxist-Leninist Sandinistas, guerrilla movements in Guatemala and El Salvador, the revolutionary upheaval in Suriname, and recent and past events in Grenada have marked a half decade of increasing turmoil in Central America and the Caribbean. Advances in transportation and communication have brought a view of the modern world to the most remote villages of the region, sparking desires for social and economic improvement. Yet poverty, high inflation, unemployment, inequalities of opportunity, and inequities in the distribution of income and wealth remain, fueling instabilities and revolution in a number of countries of the region. Inadequate domestic infrastructure, insufficient capital formation, errors in domestic economic management, underdeveloped markets, lack of economic diversification and the general economic turndown resulting from the international economic recession of the past few years have complicated developmental efforts and added to the internal political pressures within the region. In some countries the less privileged are now challenging what they perceive as unresponsive governments and political structures and are seeking the political means to alter their status.

Lack of social and economic development, however, is not the only cause of increasing instabilities in the region. The Soviet Union, Cuba, Sandinista Nicaragua and other Soviet Bloc countries have been actively exploiting the situation. Moscow has attempted to conceal its involvement in the region. It has preferred to channel arms through Cuba, allowing the Cubans to take the lead. Nevertheless, the Soviet Union has been persistent in its support of insurgency, terrorism, and radical, anti-democratic forces and regimes in the Caribbean Basin. The Kremlin's interest in the region was underscored recently by documents recovered from Grenada which indicated that the Soviet Union was willing to *donate* (an action almost unprecedented in Soviet approaches to foreign assistance) over \$37 million in military equipment to the Marxist-Leninist regime in that country and to train Grenadian military personnel in the USSR at Soviet expense.

Cuba, on the other hand, has been more visible in its support for guerrilla and terrorist movements in Central America and the Caribbean. Despite its own economic failures, Cuba's willingness to project itself into the region and worldwide has not diminished. Cuba has over 35,000 military personnel serving in combat and assistance roles in

Africa alone. In the Caribbean it has trained revolutionaries in urban and rural warfare; supplied or arranged for the supply of weapons to support guerrilla efforts; and encouraged terrorism to provoke indiscriminate violence and repression in order to weaken governments and attract converts to armed struggle. Cuba has also played a key role in uniting the traditionally splintered radical groups in El Salvador and Guatemala. In Costa Rica a special legislative commission has documented Cuba's role in establishing a supply network during the Nicaraguan war. The network has since been used to supply Salvadoran insurgents. Cuba has been implicated in the training of M19 guerrillas in Colombia and is active in nurturing an insurgency in Honduras. In some countries Cuban and Soviet support for revolutionaries has led to a crippling political polarization which has seriously complicated efforts designed to achieve social and economic progress.

The resulting dilemma for American leadership has been a serious one. On the one hand, the United States is sympathetic to demands for socio-economic and political reform. Such demands are consonant with our own ideals as a nation. On the other hand, the radicalization of many of the reform movements within the region with Soviet and Cuban assistance suggests a high probability that should an immediate collapse of the existing order occur, it will simply be replaced by Marxist-Leninist structures likely to be even less capable of fulfilling the social and economic aspirations of the people and inclined, as in Nicaragua and previously in Grenada, to impose an even more narrowly based political system along totalitarian lines which will be fundamentally and sharply anti-American.

It is within this context that strategies must be fashioned which assist the peoples and countries of the region in their attempts at socio-economic and political reform. The task is not an easy one. No quick fixes are likely to solve the region's problems. The growing economic and strategic importance of the Caribbean Basin makes it impossible to ignore the region. What is required is patience, persistence, consistency, and an understanding that Washington alone cannot bring stability to the region. The United States, however, remains a powerful influence. If stability and progress are to be achieved, the United States must underscore its support for social and economic reform and be prepared to increase its economic assistance to the region to support needed reforms. The United States also must continue to encourage movement toward democratic government and emphasize its commitment to human dignity. It must reject violence and terrorism as a solution to the problems which beset the region, and be prepared to assist its neighbors in countering Cuban and Soviet supported subversion as each situation dictates. In this regard, it must clearly signal the Soviet Union and its Cuban surrogate that it will not tolerate any extension of Soviet military

facilities or bases in the region, and that it is prepared to assist the region in rejecting the establishment of Soviet-style totalitarian governments and Soviet, Cuban, or Nicaraguan efforts to undermine progress toward democracy.

The image shows two handwritten signatures. The signature on the left is "James R. Greene" and the signature on the right is "Brent Scowcroft". Both signatures are written in cursive ink.

JAMES R. GREENE  
*Co-Chairman*  
*Working Group on*  
*the Caribbean Basin*

BRENT SCOWCROFT  
*Co-Chairman*  
*Working Group on*  
*the Caribbean Basin*

*November 1983*

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\* Names of Directors of the Atlantic Council are in italics.

† While a full Member of the Working Group, Sr. Barletta did not participate in the formulation of Sections III.A & B and IV.B & C re U.S. political and security interests.

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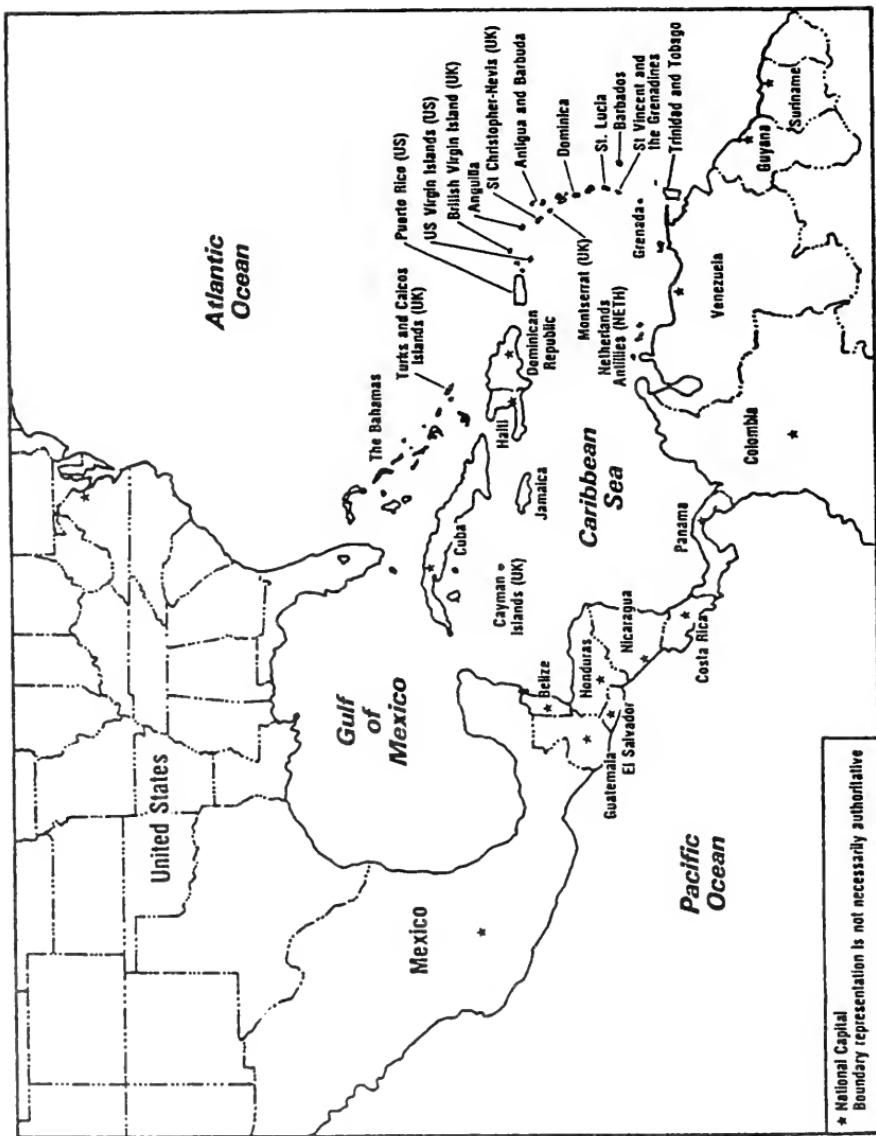
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## EXECUTIVE SUMMARY

### Major Conclusions and Recommendations

Americans are becoming increasingly aware of the importance of the Caribbean Basin to the United States. We welcome this heightened interest in the region (defined here to include, in addition to the United States, the Caribbean islands, Central America, Colombia, Guyana, Mexico, Panama, Suriname, and Venezuela). The American people need to develop a broad and informed consensus on how best to define and defend U.S. interests in what constitutes our southern flank. We hope that the findings and recommendations in this Policy Paper, which are summarized below, can contribute to the open, democratic debate which is the best method for building that consensus.

The countries of the Caribbean Basin confront serious problems. Poverty, population pressures, inflation, inequalities of opportunity, and inequities in the distribution of income and wealth frequently have resulted in pressures for social and economic change. In a number of countries, traditional political, economic, and social structures have been unable to accommodate needed reform. The combined international factors of debt, fluctuating commodity prices, trade protectionism, and uncertain recovery in the industrial countries will shape the region's social and political environment in the coming years. The resulting environment presents opportunities for Cuban and Soviet penetration and the emergence of governments antithetical to U.S. interests, thus adding an East-West dimension to an already complex North-South problem.

This Policy Paper examines the changing nature and problems of the Caribbean Basin (sections I and II), U.S. and other Western interests in the region (section III), and the implications of recent trends for U.S. policy (section IV). The paper analyzes the major issues and options facing the United States (sections V, VI), and suggests specific courses of action (section VI).

### General Findings

(1) The United States, Canada, Western Europe and Japan need to focus concerted and sustained attention on the Caribbean Basin. The problems facing the region, however, are complex, and simple solutions will not suffice. If the United States and Western Europe are to defend their interests and make a positive contribution to the region, policies must be developed that are consistent, enjoy broad domestic support, and can be sustained over the long term.

(2) While it is useful to address the Caribbean Basin as a geopolitical entity, a major challenge to the United States will be to find the proper mix between regionwide, subregional, and country-specific policies. The circumstances of particular countries and subregions must be taken into account.

(3) The political change and breakdown experienced by several countries in the region—notably in Central America—are the result of long-term systemic problems, aggravated by Cuban and Soviet support for revolutionary forces. Existing political institutions failed to adjust to new economic and social conditions and refused to incorporate newly emerging sectors of the population that were increasingly mobilized and politically aware.

(4) Faulty economic policies, inefficient government, and highly skewed income distribution also have contributed to political instability in some countries. While Soviet and Cuban propaganda, influence, subversion, and arms transfers certainly exist in the area, they are seriously aggravating factors rather than the fundamental cause of the problems of the region.

(5) Recently, the economic disruptions emanating from the global recession have exacerbated underlying political problems. While domestic economic management clearly could have been better in some countries, the force with which the international recession hit the Caribbean Basin would have had a severe impact on the best-organized of governments. Per capita income levels are in serious decline throughout much of the region.

(6) Despite the pressures for change and the gravity of the economic crisis, revolutionary upheaval will most probably be avoided in the majority of Basin nations. Open political institutions or enlightened elites, where they exist, should be capable of absorbing or accommodating forces for change. But in some countries in the region, institutions may be too rigid, the leadership too short-sighted, or the pressures too overwhelming to avoid more abrupt change.

(7) Economic and political modernization have altered the self-perception of the inhabitants of the region. Most of the region's leaders have developed a greater sense of their own national interests. They seek a diversity of international ties in order to increase their own room for maneuver. Used effectively, this emergent nationalism can be an asset in a Western strategy aimed at helping the developing countries of the Basin defend their sovereignty against Soviet domination.

(8) The Soviet Union has made a heavy economic and diplomatic investment in Cuba, but has been unwilling to make similar commitments elsewhere in the region. The Soviets have been cautious, finding it more effective to act through the Cubans. For their part, the Cubans have stepped up their support to a number of guerrilla movements and are playing an active role in Nicaragua.

(9) U.S. interests in the Caribbean Basin have increased and broadened. The U.S. will always want to secure its southern flank against military threats, but other interests have also assumed increasing weight. Economic interests—oil, debt, trade, migration—are more salient. The U.S. political interest is tied to economic development and basic human rights. Therefore, U.S. national security interests must be defined broadly to include these economic, political, and social concerns.

(10) The Caribbean Basin today displays a widening diversity of types of political systems, ranging from Marxist-Leninist (Cuba), to various forms of liberal democratic and nationalist populist, to traditional dynastic (Haiti). In deciding a government's compatibility with U.S. interests, four rough guidelines can be applied:

- First, a government should not grant access to military facilities to hostile powers nor follow a policy of automatic alignment with the Soviet Union.
- Second, it should not interfere in the internal affairs of other states.
- Third, the government's legitimacy should derive not from force but from its responsiveness to the will of the people, optimally as expressed through free elections.
- Fourth, as required by U.S. foreign assistance legislation, the government should not engage in the "gross and consistent" violations of the basic human rights of its population.

(11) U.S. intervention in the internal affairs of any nation in the area will arouse general antagonism, but U.S. opposition to intervention by others is in the interest of every country in Latin America, even though this may provoke the resentment of groups that might benefit from such intervention. The U.S. should make crystal clear its position that each nation has a right to determine its own political institutions; we will, however, oppose external intervention by others in the affairs of any country in the area, particularly if it involves or gives rise to the use of force.

(12) U.S. influence in the Caribbean Basin has been diminished by a series of developments in the international system, including the emergence of regional "influentials" and the generalized diffusion of power. U.S. policy has been further constrained by several domestic realities, including political, budgetary, and bureaucratic ones. Policymakers should strive to break free from some of these constraints. Budgets can be increased. Nevertheless, failure to take international and domestic constraints into account can lead to overambitious policies, and the inevitable policy corrections leave the appearance of inconsistency and incompetence.

(13) Given these constraints on U.S. influence, it makes sense to seek to work closely with other countries who share our fundamental interests, including Mexico, Venezuela, Canada, Western Europe, and Japan. Such cooperation may require that the U.S., these, and other friendly states modify some of their policies in order to pursue fundamental goals.

## **Major Policy Recommendations**

### **Security Through Development**

Solid support for socio-economic development must be a major component of long-term U.S. security policy in the Caribbean Basin. The United States should embark on a comprehensive and imaginative program for Caribbean Basin economic development. Such a plan should be based on the strong desire of the countries in the area to participate actively and cooperatively in the design and implementation stages. The plan should focus on the development of infrastructure, agriculture, and exports; promote institution building and technical training; foster both private and public sector development; and be supported by multilateral as well as bilateral assistance.

### **Enhanced Political Participation**

The President and Congress should support the development of broadly-based representative forms of government, with local institutions building upon the history and culture of individual countries. In many of the countries of the English-speaking Caribbean, such an approach would contribute to a strengthening of existing democratic institutions. Most members of the Working Group believe that in some Spanish-speaking countries, despite historical and cultural tendencies toward more authoritarian models, trends suggest an increasing demand by the populace for political participation.

### **Military Basing**

The United States should join with other Caribbean Basin countries to oppose the establishment in the region of additional Soviet or Cuban military bases, the major expansion of existing ones, or increased Soviet and Cuban access to existing facilities. The United States should insist that the Soviet Union honor the three accords that limit its military capabilities in Cuba. The United States should also make clear to the Soviet Union and Cuba that it strongly opposes their establishing military bases elsewhere in the Caribbean Basin.

### **Bilateral Security Assistance**

Consistent with the four guidelines set out in point 10 of the "General Findings" above, the United States should selectively extend its security assistance efforts where warranted in the region. In the past, the military elites have generally been conservative and allied with traditional power structures. In recent years, however, there have been indications of an awakening of social and political conscience within some sectors of the military. This awakening creates opportunities for bringing about changes that are essential if political disorder and disintegration are to be avoided.

The U.S. should be disposed to increase military education and training programs for the states in the region that request it. The role of the U.S. Coast Guard should be expanded in the Eastern Caribbean as part of the security assistance effort.

### **Strategic Security**

A clearing-house should be established for the continuous sharing of intelligence on Soviet and Cuban activity in the region. The United States and its allies should consult regularly, and, where practical, coordinate action in regard to Soviet and Cuban military and subversive penetration in the area. A coordinating mechanism should be established to facilitate doing so. Some members of NATO, together with appropriate regional powers, should be encouraged to extend military assistance in the area.

### **Radical Nationalist Regimes**

U.S. policy should strive to keep radical regimes of the left or right integrated into the Western economic system and separate from the Soviet strategic network. A policy of confrontation will often fail to modify regime behavior in the desired direction, instead driving the regime further into a shell of distrust and hostility. There are times when a "wait-and-see" attitude will be preferable

to sudden reaction to an immediate crisis.

There should be a presumption against paramilitary covert action, especially where vital interests are not at stake, but its appropriateness can only be decided upon a case-by-case basis. Most of the members of the Working Group believe that, generally, in the Caribbean Basin, a full assessment of the likely costs and ramifications will more often tilt against such a policy. Paramilitary covert action in Latin America tends to become public and thus be counterproductive. Instead, the United States should concentrate on a "counter-interventionist" policy of preventing the Soviet Union, Cuba, and Nicaragua from arming and supporting guerrilla forces in the region.\*

The U.S. should continue to press vigorously for an end to Nicaraguan subversion in other countries. At the same time, the United States should maintain a flexible diplomatic posture that is open to negotiating the major bilateral and regional differences, as a possible means of weaning Nicaragua away from Cuba and the Soviet Union.

The United States should make increasingly strong efforts to probe for possibilities of inducing the Cubans to cooperate seriously in the peaceful solutions of conflicts in Central America and southern Africa. If significant progress can be made on these issues, the U.S. should reconsider its policies toward Cuba. If progress is not forthcoming, the U.S. should explore appropriate sanctions with its Western European allies, while not excluding the possibility of other forms of pressure on Cuba.

### **Regional Political Cooperation and Peacekeeping**

The United States should be responsive to efforts of regional countries to coordinate approaches to the Caribbean Basin that are consistent with fundamental U.S. objectives. The greater nationalism and assertiveness of the nations of the region, and the entrance of other powers, make it difficult and more costly for the United States to gain the outcomes it seeks by working alone. Multilateral diplomacy, to the extent that it can be effective, may frequently be preferable to a unilateral approach to the region's security problems.

The U.S. should encourage the Contadora Group, (Colombia, Mexico, Panama, Venezuela) to continue its efforts to find political solutions to the conflicts in Central America. We should not automatically exclude proposals for negotiations between political adversaries that go beyond a simple preparation for national elections. In addition, the U.S. should encourage and assist the Organization of American States (OAS) to play a constructive role in reducing tensions in the Basin and in providing or policing guarantees that are part of any treaties or settlements. The U.S. should also seek the establishment of international observer groups to monitor arms traffic and military movement across Central American frontiers. In appropriate circumstances and as ele-

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\*Brent Scowcroft maintains that: "There should not be a 'presumption against' covert action or any other of the operational instruments of policy available to U.S. decision-makers. All options should be dispassionately analyzed including all advantages and liabilities, in light of the particular situation. Current emotional attitudes aside, the United States should not abjure consideration of those policy options which lie between diplomatic action or security assistance and the use of U.S. troops."

ments of broader peaceful settlements, the U.S. should support multinational peacekeeping forces that serve as buffers and maintain order.

### **Cultural Exchange and Training**

The United States should expand its government-sponsored scholar programs and insure that a higher proportion of funds are made available to the less-privileged for study in the United States in technical and vocational programs. The countries of the region lack sufficient adequately trained leadership and middle-level cadres for the task of building more prosperous and stable societies. The U.S. Information Agency (USIA) and other involved agencies should expand their leadership training programs in the region. They should reach across the social and professional spectrum to include business and labor leaders, public administrators, academics, journalists, military officers, and clerics. The United States should significantly increase its efforts to train middle-level technicians, managers, and future leaders and to familiarize them with the U.S.

The U.S. and Western European labor unions (including the American Institute for Free Labor Development), human rights and other humanitarian organizations and foundations should maintain and expand their activities in the region.

### **Human Rights**

The United States should, on appropriate occasions, make known its concern for the improvement of human rights practices by offending Caribbean governments. Its attitude toward indiscriminate slaughter of civilians from whatever quarter should be unequivocally clear. If geopolitical interests require cooperation with regimes in countries where rights are being systematically violated, the U.S. should nevertheless exert such leverage as it can to ameliorate abuses of personal, political, and trade union rights.

The United States should encourage international observation of human rights practices in Caribbean countries charged with abuses. For this purpose the U.S. should support investigation through OAS machinery, in particular through action by the Inter-American Commission on Human Rights.

### **Broadcasting**

The United States should substantially increase the hours of programming and the number of broadcast languages to the region so as to increase understanding of events and of U.S. policies. While the Voice of America enjoys a high reputation as a timely and dependable source of information, Soviet and Cuban information programming has become more sophisticated and subtle. The United States needs to counter this propaganda by bringing objective information to listeners in the region.

### **The Debt Crisis**

The industrial countries must resume sustained growth if the Caribbean Basin nations are to recover from their deep economic recession. Only then can their export markets expand, their terms of trade improve, and their attractiveness to investors be rekindled.

A most pressing problem facing the region is the management of the balance

of payments. Alleviation of the debt crisis is a *sine qua non* for the reestablishment of an environment where investment and growth can occur. In the 1980s, a more balanced mix between official and private lending is required, both to manage the immediate liquidity crises and to finance future growth. Governments and multilateral institutions will have to play a greater role in steering financial relations between the countries of the Organization for Economic Cooperation and Development (OECD) and the developing nations of the region. The International Monetary Fund (IMF) needs to be strengthened if it is to contribute an adequate level of resources to the region. The U.S. Congress should approve the substantial increase in IMF resources negotiated by the IMF member nations.

International capital markets need to be stabilized. The IMF, World Bank, commercial banks, central banks, and national regulatory agencies and governments of the OECD countries should embark upon a process of consultation to search for better ways to collect and disseminate information regarding external debt, and, more generally, to bring greater stability to international capital markets. National regulatory authorities should devise lending criteria which inhibit imprudent expansions of exposure or destabilizing, sudden retrenchments.

The rescheduling of public and private debt should take place when it is necessary to bring service charges into line with a country's capacity to pay. Debt rescheduling should cover a sufficient number of years so that economic management can proceed in an environment of relative predictability.

The developing countries must balance their expenditures with available financing. The developing nations of the Caribbean Basin should, as necessary and in agreement with the IMF, the World Bank, and the Inter-American Development Bank (IADB), implement policies to stabilize their external and internal accounts and accommodate their payments positions to the prospectively lower level of foreign borrowing by restraining imports, promoting exports, and increasing domestic savings.

### **Long-Term Development**

Future growth will require sustained inflows of long-term capital. Since substantial long-term flows from commercial banks cannot be expected by most countries in the region during the next several years, official institutions—multilateral and bilateral—will have to take the lead in making capital available. To facilitate increased lending to the Caribbean Basin, the overall resources of the World Bank and the IADB should be increased in real terms. As first steps, the U.S. Congress should promptly approve the pending replenishments of the World Bank's International Development Association (IDA) and the IADB. Regional aid institutions, including the Caribbean Development Bank and the Central American Bank for Economic Integration, should receive the support of the Agency for International Development (AID) and of the World Bank and the IADB. In addition, U.S. economic assistance to the Caribbean Basin should be expanded. Bilateral aid programs should be coordinated with other bilateral and multilateral donors.

In order to stimulate foreign direct investment, the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank should concentrate a rising percentage of their activities in the region. The private sector can play an

important role is fostering economic development.

External donors should give priority to training local manpower. At present, the ability of both the private and public sectors in some countries to absorb financial resources is hampered by the inadequate skills of labor and management.

The current level of political conflict and uncertainty in Central America is a severe impediment to economic development. The United States should seek a reduction in tensions in Central America that meets its security objectives, as an important contribution to enhancing the effectiveness of development assistance and to creating an environment conducive to private savings and investment.

### **Trade**

The Working Group applauds the adoption by the U.S. Congress of the Free Trade Area provision contained in the CBI legislation. Expanded trade opportunities for the Caribbean Basin countries are essential if balance of payments problems are to be resolved and growth sustained over the long run. A majority of the members of the Working Group believe that all countries of the region (excluding Cuba) that wish to participate in the Free Trade Area and its expanded version should be permitted to do so on a nonpolitical, non-discriminatory basis. The objective of the free trade areas is to increase economic integration and political understanding, not to drive countries further apart.

Foreign assistance should be oriented, among other objectives, toward supporting increased intra-regional trade. Bilateral and multilateral aid programs should seek to promote export-oriented industries and agriculture. This can be accomplished by directly promoting private-sector firms, as well as by assisting the public sector.

### **Immigration**

The U.S. Congress should approve the Simpson-Mazzoli bill, as part of a needed effort to gain increased control over the flow of foreign immigrants. Over the long term, however, emigration pressures can be moderated only if Caribbean Basin countries achieve sustained economic expansion and reduced population growth.

The U.S. Immigration and Naturalization Service should be enlarged and the quality of its personnel upgraded. Potential employers of nonresident aliens should be required to demonstrate both a need for foreign labor and evidence that they cannot fill this need by using U.S. citizens and legal resident aliens. Amnesty should be granted to immigrants living in the U.S. since a specified date.

### **Technology Transfer**

The U.S. private sector and educational community should explore with Congress the utility of tax incentives targeted at U.S. firms active in the Caribbean Basin for the education and training of Caribbean Basin nationals.

### **Energy**

The United States should take a number of steps to assist the smaller

Caribbean Basin states as well as the major oil producers of the region to develop their energy resources. The U.S. private sector should continue to be a major source of technology and capital for energy development in the Caribbean Basin. Moreover, the U.S. Government, in cooperation with the World Bank and appropriate regional organizations, should support increased World Bank financing for energy projects; encourage the formation of broadly owned private sector Regional Energy Development Corporations to implement renewable and conventional energy supply and use programs; and facilitate the transfer of technology for exploiting alternative energy resources. AID should also work to develop energy projects that can utilize the funds generated by the joint oil financing facility of Mexico and Venezuela. The Department of Energy should make judicious use of the contracts of the Strategic Petroleum Reserve to provide a market for Mexican and Venezuelan oil, as a means of enhancing future U.S. energy security and of strengthening bilateral ties.

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## WESTERN INTERESTS AND U.S. POLICY OPTIONS IN THE CARIBBEAN BASIN

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### I. INTRODUCTION

Revolutionary upheavals in Nicaragua, Grenada, and Suriname, Cuban-backed guerrilla movements in El Salvador and Guatemala, the sudden exodus of 125,000 Cubans to Florida, the intervention in Grenada by six Caribbean states and the U.S., and the financial crisis of Mexico—these are among the events in the Caribbean Basin<sup>1</sup> that captured the headlines in the late 1970s and early 1980s. Other events contributed to a growing awareness among Americans of the importance of the region to the United States. The continual flow of migrants from the Caribbean Basin to the United States; the emergence of Mexico, Colombia, and Venezuela as significant actors competing for influence in the region; the debt crises of Mexico, Venezuela, and other countries; the recently acquired independence of the Eastern Caribbean mini-states; and the Soviet-supplied military buildup in Cuba—all affect our view of the region, its people, and their future.

Interest in the Caribbean Basin is not confined to the media, the Executive Branch, and Congress. A growing list of cities, from Los Angeles to New York, have significant communities of immigrants from Mexico, Central America, and the Caribbean islands. The societies and economies of the United States and the rest of the Basin have become increasingly interdependent. Although many Americans know little about the region, a growing number of religious and citizens' groups are actively seeking to influence U.S. policy toward the Basin.

This increased interest in the Caribbean Basin comes at a difficult historical juncture for the region. Many countries are experiencing rapid economic change and some are undergoing wrenching political transformations. Tensions both within and between states are rising. At the same time, the larger countries of the region—Mexico, Venezuela, Colombia, and Cuba—as well as Canada and the extrahemispheric nations of Western Europe, Japan, and the Soviet Union—are displaying greater interest in the Basin. Several South American countries are also seeking to play a more important role in Basin politics.

The countries of the region confront serious problems. Poverty, population pressures, inflation, inequalities of opportunity, and inequities in the distribution of income and wealth frequently have resulted in pressures for social and

<sup>1</sup>For the purpose of this study, in addition to the United States, the Caribbean Basin is defined as the Caribbean Islands and Central America, Colombia, Guyana, Mexico, Panama, Suriname, and Venezuela.

economic change. Today, average per capita income is only a fraction of that of the U.S., significantly below the official U.S. poverty level. In a number of countries, traditional political, economic, and social structures have been unable to accommodate needed reform. Regional cooperation in seeking solutions to common problems has been hindered by historic, racial, ethnic, and cultural divisions, and, more recently, by growing ideological cleavages. The combined international factors of debt, fluctuating commodity prices, trade protectionism, and the uncertain recovery in the industrial countries will shape the region's social and political environment in the coming years. The resulting environment presents opportunities for Cuban and Soviet penetration and the emergence of governments antithetical to U.S. interests, thus adding an East-West dimension to an already complex North-South problem.

This Policy Paper examines the changing nature and problems of the Caribbean Basin, U.S. and other Western interests in the region, and the implications of recent trends for U.S. policy. The paper also considers the constraints which confront U.S. policymakers as they seek to protect U.S. interests and to assist the countries in the region to meet today's challenges. Finally, the paper analyzes the major issues and options facing the United States and suggests specific courses of action.

## II. THE DYNAMICS OF A CHANGING CARIBBEAN BASIN

A major challenge to the United States is to find the proper mix between regionwide, subregional, and country-specific policies.

### A. Diversity and Commonalities in the Basin

The twenty-six independent states and sixteen dependent territories of the Caribbean Basin are characterized by considerable racial, linguistic and ethnic diversity, differences in size, resource endowments, and levels of economic development, and by types of governments that range across the political spectrum.<sup>2</sup>

But these states share common traits beyond their geographical proximity to each other. The Caribbean Basin nations are mostly open economies with increasingly "Western" cultures. They are also facing serious economic problems which in some cases have translated into political unrest.

Common bonds are stronger at the subregional level. Five Central American nations (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica) and Panama share a common language and culture, somewhat similar economic problems, and intertwined histories. Today, businessmen, labor leaders, politicians, churchmen, generals, and guerrillas are in contact with each other across borders, in formal organizations and in informal support networks. News of events in any one country travels quickly and affects the mood and political calculations of people throughout the region.

In Central America, with the exception of Costa Rica, democracy does not have strong historical roots. Often wealth has been concentrated in the hands of a small, land-owning elite. In general, living standards and literacy rates are relatively low. The development of a middle class center has been slow.

In contrast, the English-speaking states of the Caribbean inherited a different societal structure. Most are still functioning democracies based on a Westminster parliamentary model.

Certainly, U.S. policy toward one portion of the region must be cognizant of its impact on the rest of the Basin. For some issues, a regionwide approach will be necessary. Other issues, however, will require a subregional or bilateral approach if the problems confronting particular countries are to be addressed effectively.

### B. Causes of the Current Crises

#### 1. Cyclical and Secular Economic Problems

For most countries of the Caribbean Basin, per capita economic growth rates were stagnant or negative in 1981-83. While errors in domestic management

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<sup>2</sup>For further discussion see the paper by Howard J. Wiarda, "Changing Realities and U.S. Policy in the Caribbean Basin: An Overview" in *Western Interests and U.S. Policy Options in the Caribbean Basin* (Atlantic Council, 1984).

contributed to this poor economic performance, the overriding causes stemmed from the international economic recession. High oil prices, devastatingly low prices for other commodities, sluggish markets for imports in the industrial countries, and the record-high real interest rates have shaken the Caribbean economies as they have the developing world in general. Countries with access to private financial markets borrowed to finance widening current-account deficits, but by 1982 commercial banks were hesitant to increase their exposure in countries of lessening creditworthiness. In fact, many banks have been and are now actively reducing their outstanding loans to these countries. As a result, one country after another has been forced to announce drastic cutbacks in government spending programs while real income has fallen. Deteriorating social services and rising unemployment characterized most of the region. Despite their possession of oil, Mexico and Venezuela did not escape this global downturn. Mexico maintained high growth rates until the middle of 1982. After the real price of oil began to slide, the Mexican government ran out of cash reserves, and many foreign banks halted new loans. To improve its balance of payments, Mexico was compelled to devalue the peso and to curtail sharply government spending and imports. Soaring inflation cut into living standards. Partly because of a reduction in oil production, Venezuela has been in a recession since 1979, and like Mexico has had to reschedule its international debt burden.

These problems are consequences of recent global disturbances exacerbated in many cases by national policies. During periods when the international economy provided a healthier environment, some of the Basin countries managed a reasonably good economic record. From 1960 to 1978, Central American economies grew at annual rates of 5-6 percent, and the Dominican Republic and Panama enjoyed respectable GNP growth rates. Mexico performed well throughout most of the period since World War II. This would suggest that, at least for some countries, economic growth is possible if they enjoy the felicitous combination of a dynamic international economy and sound domestic management.

The region does, however, face serious impediments to growth. Many of the nations are not rich in natural resources, although countries in other parts of the world have demonstrated that impressive levels of development are attainable without favorable natural endowments. Good agricultural land is in short supply on many Caribbean islands, and population/land ratios are especially high in El Salvador and Haiti. Development is further hindered by the small size of the markets of the Central American "city states" and the Caribbean "mini-states." Other impediments include deficiencies in public administration and low levels of education and occupational skills. For some of these countries, development possibilities may be limited. Some may do modestly well on the basis of tourism, primary goods exports, and light manufacturing. However, as Howard J. Wiarda points out in his Atlantic Council paper cited above, there are likely to be no developmental "miracles" and only a few modest success stories, at least in the absence of greater regional economic integration.

Throughout the region, potential entrants into the labor market have exceeded the creation of new jobs. The causes include high population growth,

mechanization and neglect of agriculture, capital-intensive industrialization, and low savings rates. The result has been chronic and rising pressures to emigrate.

Specific national policies have hindered economic development in some countries. A number of governments have overborrowed to maintain consumption rather than investment. Short-term money has been borrowed to fund long-term development projects. In order to subsidize and protect industries, governments have disrupted market mechanisms and distorted prices, and have seriously neglected agriculture. Many countries are dependent upon one or a few commodity exports and have failed to diversify into non-traditional exports. University training has remained oriented toward the liberal arts professions, despite the need for business managers, technicians, and skilled workers. In some countries the social structure prevents the rational development of a work force with the skills and attitudes toward work necessary for efficient public administration and economic growth. In one or two cases powerful segments of the ruling elite view extensive or participatory economic development as a potential threat to their power. At the same time, investments in the basic needs of the people often have been deficient. In some countries, widespread corruption seriously distorts the allocation of resources. Nevertheless, in the Caribbean Basin as elsewhere in the developing world, determined efforts can gradually overcome these obstacles.

## **2. Political Change and Breakdown**

Recent economic disruptions have exacerbated the already severe political crises in many Caribbean Basin countries. In some countries—especially in Central America—political conflicts are the result of systemic problems, resulting from the failure of existing political institutions to adjust to new conditions and to incorporate widening sectors of an increasingly politicized and mobilized population.

In Central America, economic growth has often been disruptive of traditional social and political systems. The very process of modernization created new social groups not content with the political *status quo*. In the rural areas, the mechanization of export-oriented agriculture replaced peasant laborers. Similarly, new industries in the cities gave birth to an incipient urban proletariat. Their political leadership emerged from the increasing numbers of secondary schools and universities and the expanding middle class. During the 1970s, political systems in some countries did not adapt adequately to these newly emerging social forces.

Inefficient government intervention in market mechanisms has slowed economic growth and contributed to instability. Highly skewed income distribution is another factor contributing to actual or potential unrest.<sup>3</sup> The gap between rich and poor, while relatively narrow in some English-speaking nations, is wide enough in most Spanish-speaking countries to generate feelings of antagonism and resentment. In Mexico, the bottom 20 percent of the households receive less than 3 percent of national income, while the richest 20

<sup>3</sup>See David Scott Palmer, "Issues for U.S. Policy in the Caribbean Basin in the Economic, Social and Political Arenas", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin* (*op. cit.*).

percent enjoy 58 percent. The steep inflation and rising unemployment that have accompanied the current recession have worsened income distribution in many countries. The result is an increase in social tensions and, in some cases, open violence, both spontaneous and organized.

At the same time, these elements of instability and conflict are sometimes balanced by elements of continuity and resiliency. In most English-speaking countries, parliamentary systems retain a high degree of legitimacy. The disparaging tone in which the Grenadian government under Bishop spoke of elections was widely rejected in the Eastern Caribbean by groups across the political spectrum. In Jamaica and Barbados, parliamentary systems have provided the avenues for periodic political rejuvenation. In the Dominican Republic, democratic rule has been strengthened and Costa Rica continues to serve as a model democracy. In the English-speaking Caribbean (as in the Dominican Republic and Costa Rica), labor unions have been an important force in sustaining or creating democratic institutions and in providing the means for employees and workers to redress economic grievances.

In Central America, the old ruling triad of landowners/Church/military has broken apart. In some countries, the Church has become an outspoken proponent of political and economic reforms. In Nicaragua, business organizations launched waves of strikes against the Somoza regime. In Honduras, elements of the armed forces supported agrarian reform in the 1970s and then returned at least a portion of power to civilians through elections. In El Salvador, elements of the armed forces promoted, and the Church supported, agrarian reform. In Guatemala, however, business and senior military officers have remained more conservative. It remains to be seen whether these centers of power will be capable of forging a new consensus around rejuvenated institutions.

Where open political institutions or enlightened elites are capable of absorbing or accommodating forces for change, gradual change is probable. But there are several countries in the region where institutions are so rigid or the leadership so resistant to change that abrupt and possibly even revolutionary change is a distinct possibility. U.S. policy can make gradual change more likely, but the United States must also be prepared to deal with discontinuity.

### **3. External Causes of Crises**

Uneven social, economic, and political development, however, is not the only cause of the disorder and political disintegration which is currently plaguing some countries of the region. Cuba and the Soviet Union have been active in exploiting demands for social and economic improvement and political participation. This has added a significant East-West dimension to what were essentially internal and North-South problems.

Most of the revolutionary groups in the region are of indigenous origin. However, Cuba has trained and armed cadres in urban and rural guerrilla warfare. In Colombia, Cuban-trained guerrillas attempted to establish a "people's army". Some 3000-5500 Cuban civilians are serving in Nicaragua, many of them reportedly as key advisors to the government. These civilians are joined by an estimated 2000 Cuban as well as Eastern European security advisors. In El Salvador, Cuba has played an important role in arming the

guerrillas, although the guerrillas undoubtedly obtain arms from a variety of sources. Castro has admitted that Cuba has been actively engaged in supplying arms to guerrilla groups in El Salvador at least prior to January 1981. Likewise in Guatemala, Cuba has been active in training and arming guerrilla cadres. Cuba has also worked to unite the traditionally splintered guerrilla groups operating within each country, sometimes apparently as a prior condition to providing increased assistance.

### C. The Aspirations and Capabilities of the Developing Countries

In the 1950s, the governments of Central America were generally willing to follow the U.S. lead in international affairs, and most island states had still not obtained their independence from colonial rule. Today, many Caribbean Basin nations have been caught up in the movement toward "Third Worldism". Third Worldism includes not just a political agenda (nonalignment and greater participation in international decision-making), and an economic agenda (redistribution of the world's resources or at least a more equitable and stable economic system), but also incorporates initiatives to fashion indigenous political and economic systems attuned to local history and traditions. This movement is only beginning in the Caribbean and is likely to gain force in the future.

Most of the region's leaders have developed a stronger sense of their national interests. They seek a diversity of international ties in order to increase their room for maneuver. The interest of extra-hemispheric powers is considered by some a welcome development that allows countries to diversify their international relations. As mass participation in politics increases, nationalism becomes a stronger force, and the opposition to foreign intervention in their domestic affairs becomes a major theme. Economic development has become an overriding preoccupation in the region and control over natural resources a central security concern.

### D. Extra-Hemispheric Powers

The governments and political parties of West Germany, France, Spain, and other Western European nations have become increasingly involved in the region, although their involvement is still modest compared to that of the United States. During the last ten years, Central America has become a battleground where social and Christian democratic activists, supported by political foundations and parties, have been providing their local counterparts with ideological training and financing. To promote nonalignment and domestic pluralism, some Western European governments have extended economic and small amounts of military assistance to the Nicaraguan government. Several Western European governments have urged the United States to seek a peaceful political solution to the civil war in El Salvador, partly out of concern that Central America might become an irritant in the Atlantic community.

The Soviet Union traditionally considered the Caribbean Basin to be a U.S. sphere of influence—until the Cuban revolution. In 1982, Cuba was the largest recipient of Soviet economic assistance in the Third World, acquiring aid worth \$4 billion (mostly in price subsidies for sugar and petroleum). This was equivalent to over 25 percent of Cuba's GNP. During 1981-82, Soviet bloc

military aid to Cuba exceeded \$7 billion. These Soviet aid levels to one country vastly exceeded U.S. bilateral economic and security assistance to the entire region.

The Soviets have made heavy economic and diplomatic commitments in Cuba, but have not made comparable investments elsewhere in the region. The Soviets rejected appeals during the 1970s for economic aid from then Jamaican Prime Minister Michael Manley and, even taking into account Cuban economic aid, have provided the current Nicaraguan regime with only a fraction of what it has requested. Moscow has been cautious about *direct* involvement, preferring to allow the Cubans to take the lead in the region. The Soviets may fear a strong U.S. reaction; consider that Cuba already provides them with a sufficient asset in the area; not want to incur the costs of financing a "second Cuba"; or may simply be waiting for better opportunities.

In sum, the Caribbean Basin has become a complex, dynamic, turbulent region. The United States will have to adjust to the region's growing nationalism and assertiveness. U.S. policy will have to take into account the presence of other powers, some relatively friendly, others hostile, but all pursuing their own interests. These new realities will affect the nature of U.S. interests and the threats we face, as well as the choices of policies open to us.

### **III. THE CHANGING NATURE OF U.S. AND WESTERN INTERESTS**

U.S. national interests in the Caribbean Basin—their importance and relative priority—are not self-evident. Different groups within the United States would define the national interest differently. Moreover, U.S. interests and the threats they face have been changing over time.

During the early days of the Republic, the Monroe Doctrine was designed to prevent the European colonial powers from further intruding into the hemisphere. By the late nineteenth century, a chief preoccupation of the United States was to prevent the Europeans from further extending their influence in the region and to keep Caribbean coaling stations out of potentially hostile control. As the United States expanded its international trade and its naval power, the security of the sea lanes and the Panama Canal became increasingly important.

During World War II, even though the United States committed substantial naval forces to reduce German interference with Allied shipping, losses were high. The Panama Canal was a heavily used waterway for commercial shipping and for transferring naval vessels from one ocean to the other. Today, with the growth of world trade and the need to support allies around the world, freedom of movement in the Caribbean Basin is an important consideration in security planning.

While the United States has an interest in militarily securing its southern flank, other interests have also assumed increasing importance. Access to the region's trading and financial markets; the production of oil in Mexico and Venezuela; the vulnerability of Caribbean refineries; the influx of large numbers of migrants from a growing list of Basin states; and the accumulation of risky debts owed to commercial banks—each of these issues has captured the attention of policymakers and the U.S. public.

As a great power, the United States is concerned with its global credibility. To the extent that the United States seems unable to protect its interests in the Caribbean Basin, the credibility of its commitments elsewhere may erode.

#### **A. U.S. Security Interests**

##### **1. Cuba and the Soviet Union in the Region**

The geographic proximity of the Caribbean Basin to major sea lines of communication (SLOCs) and to the continental United States marks the region as strategically critical. In peacetime, 44 percent of all foreign cargo tonnage and 45 percent of the crude oil imported into the United States pass through the Caribbean. In a protracted conventional conflict, reinforcements destined for U.S. forces in Europe would also sail from Gulf ports.

In peacetime, so long as the United States adheres to the rules of international law, it cannot deny hostile powers access to the region's waterways. Even

without facilities in Cuba, Soviet submarines and surface vessels can ply the Caribbean and Atlantic. However, Soviet or Cuban interference with U.S. shipping is unlikely except in the context of a wider Soviet-American crisis or conflict. Cuba in particular is unlikely to attack U.S. assets for fear of retaliation. Nevertheless, during crises and in conventional war, Soviet military bases in the region would threaten Caribbean and Atlantic SLOCs.

Given their physical proximity to the United States, hostile nations allied with the U.S.S.R. could provide the Soviets with cost-effective options for direct attack on the United States during times of crisis or conflict. Such engagement in a great power conflict would entail tremendous risks for the Caribbean Basin nation, exposing it to immediate devastation. Nevertheless, the mere threat of such a possibility is likely to affect U.S. decision-making processes during times of crisis. In a conventional conflict with the Soviet Union in Europe or elsewhere, the United States would have to divert significant military resources to neutralize Cuban and possibly deployed Soviet capabilities.

The combat radius of Cuba's MiG-23s would permit Havana to strike targets throughout much of the Gulf, to threaten approaches to the Panama Canal, and to attack installations in the United States as far north as Savannah. The radius of potential air and sea interdiction would expand to include almost the entire Caribbean Basin if Cuban and/or Soviet aircraft were permitted to operate from bases in Grenada and Nicaragua. Moreover, if the Cubans were provided more advanced aircraft such as the Fencer (Su-19) they would be able to strike targets deeper in the United States.

Cuba also could be used as a logistics base, recovery point, and turn-around facility for Soviet aircraft, ships, and submarines operating in the Gulf of Mexico, the Caribbean Basin, and in the Atlantic. Backfire (Tu-26) bombers launched from the Kola Peninsula and recovered and relaunched from Cuba would permit strategic surveillance and attack throughout much of the North and South Atlantic. Similarly, Soviet submarines already at sea could use Cuba for refueling and ammunition resupply and thus avoid interdiction by U.S./NATO anti-submarine warfare forces operating in the Greenland-Iceland-United Kingdom gap.<sup>4</sup>

For its part, the U.S. has many bases and facilities in the Caribbean, including:

- The substantial port and logistic facilities at Guantanamo Bay, Roosevelt Roads for fleet training and support operations, and the logistics and administration facility at Fort Buchanan.
- In Panama the U.S. continues to operate and maintain a range of bases and facilities including Howard Air Base with its jet-capable runway and Fort Clayton, headquarters of the 193rd Infantry Brigade for canal defense. U.S. Southern Command has its headquarters at Quarry Heights in Panama City, and Fort Gulick is the home of the U.S. Army School of the Americas.

<sup>4</sup>For a further discussion of U.S. security interests, see Robert Kennedy and Gabriel Marcella, "U.S. Security on the Southern Flank: Interests—Challenges—Responses", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin*, op. cit.

- Elsewhere, such facilities as: the Eastern Test Range missile and space support facilities on the Grand Bahamas Island, at Grand Turk, and in Antigua; the oceanographic research facilities in Eleuthera, Grand Turk, and Antigua; the long-range navigation (LORAN) facilities on San Salvador Island and South Caicos; and the U.S. Atlantic Underseas Test and Evaluation Center in the Bahamas.
- Other installations, such as the Ramey Air Force Base in Puerto Rico, could be activated if necessary.

At present, the Soviet role in Cuba makes it impossible to speak of "denying" the Soviets any presence in the Caribbean Basin. The United States has, however, succeeded in limiting the ability of the Soviet Union to use Cuba as a military base that could directly threaten the U.S. In 1962, the Soviet Union agreed to withdraw strategic weapons from Cuba (in exchange for the expectation that the U.S. would not invade Cuba). In 1970, the Soviets agreed that their navy would not use Cuban ports as a base for strategic operations. In 1979, the Soviets agreed not to introduce combat troops into Cuba in the future and asserted that their present military personnel in Cuba had principally a training purpose. However, during times of severe crisis or limited conflict, these accords may not hold.

## **2. Grenada\***

Since the March 1979 coup led by Maurice Bishop of the New Jewel Movement, Grenada has in large measure followed the foreign policy lines of Cuba and the Soviet Union. Cuba has provided military, technical, security, and propaganda assistance to the Bishop government. Cuba also is aiding in the construction of a 75-kilowatt transmitter for Radio Free Grenada that may be used to beam Cuban and Soviet propaganda into the Caribbean and South America.

The greatest security concern is the construction of the Point Salines Airport, whose runway clearly will have a military potential. Such a runway could accommodate every aircraft in the Cuban and Soviet inventory. If allowed to use the Grenadian airfields, Cuba's MiG aircraft would enjoy a greater radius of operation including the potential for operations into the northern portions of South America. The Grenadian government, however, contends that the airport will be solely for civilian use, is necessary for tourism, and notes that other commercial airports in the region have runways of approximately equal length.

## **3. Nicaragua**

The Sandinista National Liberation Front (FSLN), which controls Nicaragua's government, faces the twin tasks of economic reconstruction and political consolidation. Contrary to their initial promises of democratic pluralism, the Marxist-dominated FSLN has established itself as the dominant political force. While elections are scheduled for 1985, it is doubtful that the FSLN is prepared to relinquish power. It has gained control over key govern-

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\*For current views on Grenada, see preface by James R. Greene and Brent Scowcroft.

ment positions and the security apparatus and is subordinating opposition political forces by limiting the freedom of the media, controlling public dissent, and reducing the role of the private sector.

For the time being, the Sandinistas bear the mantle of legitimacy based on their role in the overthrow of Somoza. They are using this legitimacy to promote a new revolutionary mystique that justifies their socio-political programs and foreign policies and undermines the opposition. Opposition is considered "counter-revolutionary".

Cuban influence is pervasive in Nicaragua. With Cuban assistance as well as advisers from East Germany, Bulgaria, North Korea, and the Soviet Union, the Sandinistas are improving internal security and enlarging their standing army.

Moreover, between October 1980 and February 1981, Nicaragua was the staging site for a Cuban-directed flow of arms to Salvadoran guerrillas. Periodic reports indicate that arms destined for Salvadoran and Guatemalan guerrillas continue to pass through Nicaragua (presumably with the authorization of the Sandinista National Directorate).

The Sandinistas have been lengthening landing strips which will be able to accommodate sophisticated jet aircraft. Nicaraguans have been trained as jet pilots and mechanics in Bulgaria. While there is no evidence of MiG aircraft in Nicaragua, any future emplacement of MiGs in Nicaragua would greatly increase the potential for total coverage of the region by hostile combat aircraft. Furthermore, such improvements coupled with the growth of the Sandinista Army; the extraordinary size of the reserve, police, and militia forces; and current Sandinista support for radical groups are perceived as a threat by Nicaragua's neighbors. As a result, other Central American countries are feeling the need to pump additional money into their armed forces to counter the Nicaraguan threat, thus reducing the funds which might otherwise be available for internal socio-economic programs.

The emergence in Nicaragua of a full-fledged Communist state with formal security ties to Cuba and indirectly to the Soviet Union—while not inevitable—is a genuine possibility. In a worse-case scenario, the installation of Cuban or Soviet air and naval power in Nicaragua in peacetime or during a crisis would complicate U.S. defense planning on the southern flank and contribute largely to the elimination of the "economy of force" approach the United States has taken with respect to Caribbean security, already upset by Cuban ties to the Soviet Union.

Despite disturbing trends, several obstacles remain to the communization of Nicaragua. First, while Castro is highly regarded by the Sandinista leadership and Castro's magnetic personality clearly captivates many of those who supported the revolution, it is far from certain that the majority of the Sandinistas want to become totally dependent on the Eastern bloc for support. Further, to date the Soviet Union apparently has been unwilling to provide the sort of economic support to Nicaragua that it did to Cuba. Without a clear indication that such support would be forthcoming, it is unlikely that Nicaragua would willingly and totally break its economic ties with the West. Second, movement toward more authoritarian government controls is meeting some vigorous opposition from within the FSLN and from the private sector, the

Church, and other groups within Nicaragua. Elements within the Sandinista government have publicly declared their intention to maintain pluralism and elections in Nicaragua. Third, if the Sandinista leadership wishes to avoid further economic disruption, it must reactivate the private sector which is closely linked to the Western economic system. Today Nicaragua depends greatly upon Western sources of capital and assistance for its post-revolution reconstruction.<sup>5</sup>

Among other reasons, the long association of the United States with the deposed Somoza regime has made it difficult for the United States to develop close relations with the new Nicaraguan government.<sup>6</sup> For many years, the United States provided military assistance and considerable political support to the Somozas. The United States is resented by some Nicaraguans for its past role and is feared for its anti-Sandinista policy. A policy of confrontation is unlikely to move the Sandinistas in a moderate direction in the long run; they appear too strongly entrenched to be ousted, except perhaps at considerable cost. To moderate Sandinista behavior, the United States will need not only to obtain and maintain the confidence of the democratic sectors in Nicaraguan society, but also to offer the Sandinista leadership alternatives which permit them to adopt more pragmatic, less ideological approaches to the solution of Nicaragua's current difficulties. Even then, a favorable result is by no means assured. The United States cannot expect to "buy" the Sandinistas, in the sense of transforming them into close friends, but the U.S. can have some hope to steer them toward genuine nonalignment. Their historic suspicion of the United States need not be transformed into pro-Sovietism.<sup>7</sup>

The extreme difficulties of this approach cannot be exaggerated. The pervasive influence of Cuban and Soviet bloc advisors can impose great pressure to prevent such an outcome. Cuban and Soviet propaganda will continue to work to impede improved U.S.-Nicaraguan relations. In addition, "anti-imperialist" rhetoric sometimes serves Sandinista political objectives. The effectiveness of Cuban and Soviet propaganda might well be reduced should the U.S. avoid a policy of confrontation. Ultimately, however, the Nicaraguan

<sup>5</sup>Robert Leiken comments: "The process described is the 'Sovietization' of Nicaragua, not 'communization'. It goes without saying that 'it is far from certain that the majority of the Sandinistas want to become totally dependent on the Eastern bloc for support'. What counts is (a) how they define 'totally dependent', and (b) whether their policies will, with or against their wishes, lead to such a relationship. Additionally, the Soviet Union will *not* provide the sort of economic support to Nicaragua that it did to Cuba. Since the mid-1970s the Soviets have been recommending even to regimes of 'socialist orientation' that they should not break their ties with the West or expect major economic aid from the East. What counts for the Soviets is influence in or control of the military, security, and intelligence apparatus."

<sup>6</sup>David Scott Palmer comments: "The U.S. government was the principal provider of economic assistance to the Sandinistas during their first 18 months in power."

<sup>7</sup>Brent Scowcroft notes: "There seems to be an implicit presumption which provides tone to many of the observations throughout the Policy Paper to the effect that there is a more or less inevitable tide sweeping the Caribbean region to the 'left', a tide to which the United States should be open, and that the chief internal political threat to U.S. interests is likely to result from 'rightist' regimes. The notion of a 'leftward tide' is certainly open to question or even doubt, and the eventual emergence of democracy and respect for human rights through evolution of the 'left', given the character of some of its constituent elements, is perhaps less likely than through evolution of the 'right'."

leadership will have to convince themselves of the advantages of not following the Cuban path.<sup>8</sup>

#### **4. El Salvador**

The seeds of political disintegration were sown in El Salvador throughout the 1970s, and polarization was further heightened by the fall of Somoza in Nicaragua. The left was encouraged, while a siege mentality gripped traditional conservative elements.

The younger officers and moderate civilians who seized power on October 15, 1979, hoped to halt this process of polarization. They committed themselves to reforming the country's antiquated economic, social, and political structures. The government promised to end repression, create a democratic political system, and implement agrarian reform. The so-called October Junta, however, could not muster sufficient support from within the military and security forces to carry out its program. A new junta, formed in January 1980, included more Christian Democrats and announced sweeping banking and agrarian reforms. Its reform package was attacked from the left as insufficient and from the right as threatening. Moreover, the polarization and subsequent militarization of society left the government in a position where it could neither effectively control right-wing terrorism nor put an end to the terrorism and guerrilla activities of the left. Nevertheless, the fragile government coalition survived and the reforms proceeded. A major military offensive by the insurgents was blunted by government forces in January 1981, and rightist coup efforts were thwarted. In elections held in March 1982, Salvadorans elected a new constituent assembly to write a constitution and set up full presidential elections.<sup>9</sup>

The violence of the right and left, however, remains an immediate threat not only to the existence of the current government, but also to the prospects of democratic socio-economic and political reform. Right wing "death squads" and the repressive acts of some elements within the National Guard, the Treasury and National police, and the Civil Defense forces, although perhaps diminishing, continue to alienate *campesinos*, workers, teachers, and student groups and lend credibility to the revolutionary left's contention that real reform requires a significant reordering of the political and security apparatus. Killings by right-wing forces also represent the greatest immediate threat to continued U.S. support for the government of El Salvador. On the other hand, leftist violence not only begets rightist reaction, but also constrains the ability of the government to pursue economic reform as it is forced to devote increasing resources to containing the insurgency.

Today, the revolutionary left is able to mount strikes against government security forces and highly visible infrastructure targets, to disrupt harvests, and

<sup>8</sup> Gabriel Marcella comments: "The growing insecurity of the Sandinistas may incline them either in a more authoritarian direction or, what is less likely, a tactical retreat toward toleration of more pluralism."

<sup>9</sup> Some members of the Working Group noted that, despite violence and threats of violence by some elements of the guerrillas, Salvadorans turned out in massive numbers. Some members noted that the elections were marred by an atmosphere of insecurity and the lack of participation of the leftist Frente Democratico Revolucionario (FDR).

to deprive the government of a decisive victory. Nevertheless, the revolutionary left confronts some formidable obstacles. First, the government is not as discredited as was the Somoza regime. It has the conditional support of some elements in the Church and apparently has the support of many citizens as demonstrated by the March 1982 elections. Second, despite the fact that the principal guerrilla groups united in 1980, the left is far from monolithic, as evidenced by violent internal struggles among guerrilla leaders. Third, elections have given the current government of El Salvador an edge in the "legitimacy" test and a boost in the continuing battle for international recognition and support. Fourth, through aid and training, the U.S. is attempting to improve the capability of the Salvadoran armed forces.

## **5. Guatemala**

On the heels of the Sandinista victory in Nicaragua and the insurgency in El Salvador, the intensification of insurgency in Guatemala in 1979-81 refocused attention on the long-standing problems of one of the most important countries in Central America. Guatemala is a country of approximately seven and one half million, endowed with a comparatively strong and diversified economy.

Today, the proponents of change—including many students, intellectuals, professionals, and other members of the new urban middle and working classes—want social and economic reform, a more open and competitive political system, and better treatment for the large Indian population. In the past, the aspirations of such groups were stifled by a governing alliance of some businessmen and military officers primarily concerned with maintaining the *status quo*. The tendency to label reformists as "subversive" led to increasing polarization and violence from both the right and left during the later days of the regime of President Romeo Lucas Garcia (1978-82). The targets of violence involved members of student and labor groups, the clergy, educators, lawyers, doctors, journalists, community workers, as well as the urban poor and peasantry.

At the end of 1981, the Guatemalan government put the insurgents' armed strength at 2000 to 4000. By February 1982 the four major guerrilla forces had formed a coalition called the National Patriotic United Front and were reported to be increasingly effective in securing converts among the Indian population. In the past insurgents had received little support from the traditionally passive Indians who comprise over 40 percent of Guatemala's population.

More recently, the governments of General Efrain Rios-Montt and his successor, General Oscar Mejia, have been attempting to pacify the countryside through draconian security operations combined with civic action programs. Guerrilla activities have been set back, but renewed violence is likely unless the government can bring about a substantial improvement in social and economic conditions and in political participation.

### **B. Political Interests**

Defining U.S. political interests in the Caribbean Basin is a challenging task. Traditionally, the United States has sought governments that were positively friendly and reliable. This did not necessarily imply that governments be democratic, however. The United States found that a one-party state in Mexico

or authoritarian systems in Central America were compatible with U.S. economic and security interests as then defined.

The Caribbean Basin today displays an increasing diversity of political systems, ranging from Marxist-Leninist (Cuba), to various forms of liberal democratic and nationalist populist, to traditional dynastic (Haiti). How can the United States decide which are compatible with U.S. interests?

Americans differ on the range of tolerable choices and where the lines ought to be drawn.<sup>10</sup> Western Europeans also differ among themselves, although they tend to be willing to deal with a wider range of ideologies, especially on the left, in the Third World, as, indeed, does Canada. These differing political perceptions have hindered the formulation of a concerted and effective Western policy toward the Caribbean Basin.

The Working Group suggests that the U.S. apply four rough guidelines to all countries in the region. First, a government should not grant access to military facilities to hostile powers nor follow a policy of automatic alignment with the Soviet Union. Second, it should not interfere in the internal affairs of other states. Third, the government's legitimacy should derive not from force but from its responsiveness to the will of the people, optimally as expressed through free elections. Fourth, as required by amendments to U.S. foreign assistance legislation, the government should not engage in "gross and consistent" violations of the basic human rights of its population. These guidelines should be applied flexibly and in ways which are most likely to achieve U.S. objectives.

### C. Economic Interests

The nature of U.S. economic interests in the region has changed significantly. In early years, U.S. interests were concentrated in mining, agriculture, and shipping (including the Panama Canal). Today, U.S. economic interests are more diverse and complex. Mexico, Venezuela, and Colombia are important markets for U.S. exports. The tightening interdependence between the U.S. and other Caribbean Basin economies revolves around finance, oil, other basic commodities, and migration flows.

U.S. interests in the small economies of Central America and the Caribbean islands are relatively less significant than they once were. Major U.S. firms are less dependent upon single holdings than, say, United Fruit was in the 1950s. These economies account for a small percentage of global U.S. trade and foreign investment. On the other hand, U.S. economic and financial interests are substantial in Mexico and Venezuela.

The Caribbean Basin as a whole is the fourth largest market in the world for U.S. products (following the European Economic Community, Canada, and Japan) and currently accounts for about 14 and 11 percent of total U.S. exports and imports, respectively. Basin countries supply two strategically important resources: the United States gets 85 percent of its imported bauxite and 70 percent of its imported refined petroleum products from the region. While the growth of U.S. direct investment in the Caribbean has not kept pace with the

<sup>10</sup> See Sidney Weintraub, "Options for U.S. Policy in the Caribbean Basin in the 1980s", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin*, op. cit.

growth of U.S. investments elsewhere, approximately 8 percent of U.S. worldwide investment and 32 percent of U.S. investments in developing countries are located in the region—mostly in Mexico and Venezuela.<sup>11</sup>

The nature of the threat to U.S. economic interests has changed. Some of the largest direct U.S. investments—oil in Venezuela, bauxite in Jamaica—have been nationalized. U.S. firms, by and large, have divested themselves of large agricultural holdings in Central America, preferring to operate in the more secure downstream activities of commercialization and marketing. Moreover, when nationalization does occur where U.S. firms still hold direct equity in natural resource-based enterprises, the principle of fair and timely compensation is generally observed. A rising percentage of U.S. investment is taking place in manufacturing and services, where the requirements of technology, management, and marketing generally give the U.S. parent company sufficient leverage to protect its interests.

Still, some governments have or might adopt trade and investment restrictions. The impact of these restrictions, however, is often overshadowed by the “income effect” of growth; where economies are healthy, expanding opportunities exist for U.S. traders and investors. Moreover, nearly all political leaders now accept the inevitability of economic interdependence with the United States; few still imagine that the “New International Economic Order” or “self-reliance” offers realistic alternatives. Nor is a government’s rhetoric necessarily a good guide to its actions; despite his free-market rhetoric, Prime Minister Edward Seaga of Jamaica purchased Exxon’s oil refinery (paying adequate compensation), whereas the radical nationalist Sandinista government has not nationalized Exxon’s holdings in Nicaragua.

U.S. commercial banks have substantial outstanding loans in Mexico and Venezuela and lesser amounts in several other Caribbean Basin countries. Many countries are having difficulty remaining current on interest payments, causing commercial banks to hesitate to extend new credits. Because the health of the U.S. economy depends importantly on the stability of its financial system, it is in the U.S. national interest that developing countries not default on their debt. At the same time, governments will have great difficulty implementing austerity measures which may be economically necessary but are politically destabilizing. In the long run, the ability of countries to service debt will depend upon their own economic growth; and this, in turn, will depend significantly upon the performance of the U.S. and the world economies.

Economic growth in the Caribbean Basin is important to the United States. First, over the long run, the “push” factors behind migration would be gradually alleviated by rising standards of living in the sending states. Second, while the relationship between political stability and economic growth is complex, political stability can be threatened when economies stagnate.<sup>12</sup> Third, U.S. prestige in the world will be enhanced if its smaller neighbors flourish.

<sup>11</sup> See David Scott Palmer, *op. cit.*

<sup>12</sup> Some members of the Working Group noted that rapid economic growth can be politically destabilizing. Others noted that democratic regimes are particularly threatened by economic stagnation, especially when coupled with high population growth rates.

#### **D. U.S. Influence: Diminished But Still Significant**

U.S. influence in the Caribbean Basin has declined in recent decades, but the United States remains by far the most powerful single country in the region. The United States should not overestimate its strength, but neither should it feel incapable of dealing with the potential challenges in the region.

Several factors account for the decline of U.S. influence. Governments are better able to interpret and assert their own self-interests. The emergence of regional actors (Mexico, Venezuela, Cuba) has created centers of power independent of the United States. This permits governments to reach out to Third World economic and political groupings which in turn provide different viewpoints and, to a degree, alternative support mechanisms. The increased activities of external actors (Western Europe, Canada, the Soviet Union) add further sources of power that make it difficult for the U.S. unilaterally to shape events in the region. Despite continuing influence, the United States' ability to assure the survival of friendly governments, or otherwise to shape the internal politics of states, is increasingly limited. Moreover, the presence of the Soviet Union in Cuba and diplomatic constraints on the use of force make it impossible for the U.S. to guarantee a southern flank devoid of potentially hostile elements.

Nevertheless, the asymmetry of power between the United States and all the other states in the Basin remains great. The United States possesses overwhelming conventional and strategic military superiority. It is still the largest market, most important trading partner, and major source of investment and capital for most Caribbean countries. It has the means to protect its economic interests, narrowly defined in the Basin. The very attraction of the international economy generally assures the U.S. access to materials and markets. U.S. military and economic strength is clearly predominant, but U.S. political interests are more difficult to define and defend.

#### **E. The Interests of Other Western Powers**

The commercial and political interests of Western Europe, Canada and Japan have been expanding in the Caribbean Basin. The flow of commodities and credits has expanded significantly, as has interest in the region's political evolution. There are differences in interests and degrees of involvement between the United States and its principal world partners. However, there are important Western European, Canadian, and Japanese interests which are compatible with those of the United States including: containment of Soviet influence; access to markets and goods in growing economies; and the promotion of basic human rights and participatory political systems. European social democratic and Christian democratic movements and governments have differed among themselves with regard to which tactics are most likely to produce these results in the Caribbean Basin. Nevertheless, many Western Europeans (and Canadians) seem willing to accept that significant social change, perhaps even passing through a revolutionary period, is compatible with their interests. Social democrats in particular have argued that greater tolerance toward political change is more likely to protect fundamental Western interests in the Caribbean Basin, and in the Third World generally. To date,

other Western powers have left much of the responsibility for the region's security to the United States. There has been a lag between the growing economic, commercial and financial interests of Canada, Western Europe, and Japan in the area, and a concomitant interest on their part in Caribbean political and military security.

## IV. ISSUES AND OPTIONS

### A. The Framework for U.S. Policy

#### 1. Constraints on U.S. Policy

U.S. influence in the Caribbean Basin has been diminished by a series of developments in the international system. U.S. policy is further constrained by several domestic factors. Failure to take these factors into account can lead to overambitious policies, and the inevitable policy corrections often leave the appearance of inconsistency and incompetence.

The intensity and extent of U.S. interest in the region have tended to swing sharply, from periods of crisis management and deep involvement to periods of benign neglect. Because the region—relative to others in the world—has lacked power and resources, it has not generally been considered important, except when threats suddenly arise. The inability to maintain a consistent level of sustained interest becomes in itself a constraint on U.S. influence.

Budgetary and other domestic considerations have impinged upon U.S. policy. Although U.S. economic and security assistance to the region has risen appreciably in recent years, it remains insufficient to protect American interests in the region. U.S. economic policy must also take into account the interests of sometimes conflicting domestic groups. For example, some agriculture and business groups oppose sharp restrictions on immigration, while labor favors them. Both small business and labor have opposed eliminating duties on imports from the region under President Reagan's Caribbean Basin Initiative.

As is the case with other regions of the world, the U.S. policy process itself has hampered the pursuit of U.S. interests. It has been slowed and sometimes paralyzed by the absence of a consensus within the bureaucracy or in the public at large. Moreover, a multi-layered and polycentric bureaucracy, which has difficulty in rapidly processing information, and even greater difficulty in making timely decisions, has often found itself "behind the power curve" as it has tried to influence political events in the Basin.

Policymakers should strive to break free from some of these constraints. Budgets can increase, and policy can be based on more accurate and timely assessments of local situations. Nevertheless, some of these constraints are inherent in the American political system. Moreover, the United States should not expect that its ability to fine-tune the domestic politics of Basin states will substantially improve.

#### 2. The Need for Consistency

Given the depth of United States involvement in the Caribbean Basin, events there inevitably have an effect on us. It is therefore important that the United States have a clear, consistent, long-term policy toward the region. This policy should be supported with an adequate level of resources and continuing attention at the middle and higher reaches of the foreign policy bureaucracy.

U.S. policy should, however, be realistic in its objectives. A policy which fails to take into account different local realities or constraints which are either inevitable or too costly to remove will falsely raise expectations. The result will be a cycle of disillusionment and retreat. A policy which sets modest, incremental goals can both be effective and sustain interest and support over the long run.<sup>13</sup>

U.S. policy must also be built around a new domestic consensus. Because of geographic proximity, the presence of a growing immigrant population, and the region's instability, the U.S. public is increasingly aware of and concerned about events in the region. A policy which does not retain broad popular support at home and Congressional approval will not obtain the material resources needed to sustain that policy over time. If it combines enlightenment, realism, and consistency, U.S. policy may elicit that support.

### **3. Multilateralism**

The emergence of regional powers (Mexico, Venezuela) and the increased activities of Western Europe, Canada, and Japan have created new opportunities and problems for U.S. diplomacy. Where U.S. resources are limited, cooperation with friendly states in the pursuit of common objectives can augment leverage. If orchestrated unwisely, however, multilateral approaches can diminish U.S. leverage. At times, objectives will differ, reflecting differing national interests, and cooperation may not be possible. On other occasions, cooperation may require that the United States or its allies modify policies in order to obtain more broadly acceptable goals.

Multilateral cooperation can occur at various levels. The United States can work with one or several regional powers, perhaps in concert with additional groupings of smaller states, such as the Contadora Group (Colombia, Mexico, Venezuela, and Panama). The United States can also attempt to work through the Organization of American States, and, more selectively, in the United Nations. Finally, collaboration with Western Europe, Canada, and Japan can occur in a bilateral or multilateral framework. The United States should work to strengthen its diplomacy at each of these levels.

The United States in recent years has had considerable difficulty in working with Mexico on Central American issues. The United States has been distrustful of Mexican perceptions and capabilities, and sometimes even of Mexican intentions. While the United States cannot simply follow Mexico's lead, greater cooperation should be possible because objectives are broadly consonant. Mexico has, for example, been attempting to play a constructive role in Nicaragua in defending the private sector against Sandinista encroachment. Mexico is well placed to help negotiate or reduce differences among warring factions and nations within the region.

The United States has been more successful in working with Venezuela, although swings in Venezuela's internal politics and international objectives have affected the bilateral relationship and Venezuela's willingness to work with the United States. More recently, Venezuela has been coordinating its

<sup>13</sup>Robert Foster comments: "U.S. policy should, however, be adequate to achieve U.S. national interests in the area, which are being severely challenged by Soviet-Cuban intervention."

policy more closely with Mexico. The United States should react sympathetically to such joint efforts. While the United States may not fully agree with some of the immediate policies of the two countries, their objectives are generally compatible with fundamental U.S. economic and security interests.

The United States has either not sought or been unable to gain the support of the Organization of American States for some of its Caribbean Basin policies. For example, the OAS rejected a U.S. proposal for an inter-American peacekeeping force meant to help ease the post-Somoza transition in Nicaragua. The OAS could, however, play a constructive role in reducing tensions in the Basin and, potentially, in providing or policing guarantees that were part of any treaties or settlements. For example, the OAS can send observers to validate elections, as was done in El Salvador in March 1982. Potentially, the OAS could provide the framework for a multilateral observer system to discourage the infiltration of men and arms across national frontiers.

U.S. policy cannot be captive to the OAS. The United States should, however, make a greater effort to build broader support in the hemisphere for its policies. This may at times require modifications in policies and greater sensitivity to the perspectives of other hemispheric nations. Only then might the OAS be able to fulfill its potential role as mediator and keeper of the peace.

The greater participation of Western Europe, Canada, and Japan in the affairs of the Caribbean Basin brings increased economic resources to the region. These nations provide private investment and economic aid through the multilateral agencies as well as through active bilateral programs. Western European political parties and foundations have trained many cadres and influenced the intellectual climate in the Basin. More generally, Western European countries can, to some degree, compensate for the decline in U.S. influence. Clearly, it is much better for Western European countries to do so than for the Soviet Union or Cuba. Moreover, the Western Europeans can absorb some of the blame inevitably placed on "outside powers." Providing that the Western Europeans and the United States are not working at cross purposes, this political advantage for the United States may well outweigh whatever we might lose in direct influence.

#### **4. The Role of Non-Governmental Organizations**

The U.S. government is only one conduit through which American society interacts with the Caribbean Basin. American business, labor, religious, professional, and educational organizations have firmly established ties throughout the region. When they succeed in strengthening their local counterparts, they fortify the institutional infrastructures for political pluralism.

To increase the activities of U.S. business in the Basin and to foster the indigenous private sector, President Carter encouraged U.S. firms to form Caribbean/Central American Action. This non-governmental, non-profit organization seeks to interest U.S. corporations in the economies of the Caribbean Basin and to strengthen the indigenous private sector by introducing it to export markets in the United States, assisting local business organizations, and tightening relationships between U.S. and Caribbean Basin business chambers and other institutions.

While the U.S. government played a role in stimulating its initial activities, Caribbean/Central American Action is dependent upon U.S. business for its success. Because of the diversity and decentralization of the U.S. business community and its autonomy from (and historic wariness of) the government, the ability of the U.S. government to influence business decisions is limited.<sup>14</sup> It is therefore important for leadership and organization to come from the private sector itself. The formation by David Rockefeller of the U.S. Business Committee on Jamaica is a worthy example of such an initiative.

The AFL-CIO, through the American Institute for Free Labor Development (AIFLD), has long been active in support of the trade union movement throughout the Caribbean Basin. During 1983 alone, AIFLD will allocate around \$2 million for education and leadership training and other programs intended to strengthen local union organization.<sup>15</sup> These ties are especially important in the English-speaking Caribbean, where unions play a significant role in their nation's political life. The role of labor unions in Central America has been limited by the difficulty of organizing rural workers and by government intimidation, but their strength may increase in the future.

Catholic and Protestant churches in the United States have close ties with their counterparts in many Basin countries. They provide financial and moral support to their colleagues abroad, just as they serve as a conduit through which their Caribbean Basin associates can make their views known in the United States. Similarly, U.S. and international human rights organizations are playing an increasingly active role in monitoring the human rights situation in Basin countries and in supporting indigenous, like-minded organizations.

Finally, U.S. universities and educational foundations are also active throughout the Basin. They assist citizens from the Basin to visit and study in the United States, while also helping to strengthen indigenous research and educational institutions.

The activities of these diverse, non-governmental organizations will not always be in harmony with U.S. government policy. Moreover, if they insert themselves too visibly in internal partisan affairs, they can become an irritant in bilateral relations. In general, however, they serve to increase mutual understanding between peoples in the United States and the Caribbean Basin, and may help strengthen democratic sentiments and institutions in the Basin.

## B. Security and Military Issues

U.S. security interests in the Caribbean Basin need to be conceived broadly, to include not only military issues but also political and economic interests.<sup>16</sup>

<sup>14</sup>As described in an issue paper prepared by Caribbean/Central American Action, "Implementing a Private Sector Based Caribbean Development Strategy", presented to the Atlantic Council's Working Group on the Caribbean Basin.

<sup>15</sup>As described in an issue paper prepared by Dale E. Good and William C. Doherty, "Labor Perspectives", presented to the Atlantic Council's Working Group on the Caribbean Basin.

<sup>16</sup>For a more complete discussion, see Jack Child, "Issues for a U.S. Policy in the Caribbean Basin in the 1980s: Security", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin*, op. cit.

A narrower definition of security—such as the maintenance of the *status quo*—would ignore the economic and social foundations of stability. It would also place the United States at odds with many leaders in the Caribbean Basin who perceive their security as intimately tied to economic and social development. At the same time, traditional security concerns—the containment of Soviet influence and the protection of sea lanes and the southern flank—do demand attention. This section will deal with related military issues, while following sections will discuss political and economic issues, recognizing that they are at least as important to long-term security as are military interests.

## **1. Protecting the Southern Flank**

The Soviet Union is the only power today that poses a military threat to the survival of the United States. Optimally, there would be no countries in the Basin that would provide military facilities to the Soviets. However, the Soviets have a bridgehead in Cuba. Nevertheless, the agreements between the United States and the Soviet Union constrain somewhat the ability of the Soviets to use Cuba as a forward, offensive base. The United States must monitor Soviet military activities closely to be certain that these accords are not violated. In addition, the United States should make clear to the Soviet Union that it strongly opposes the establishment of bases elsewhere in the Caribbean Basin.<sup>17</sup>

## **2. Containing Soviet Influence**

Where political and social processes fail to accommodate change or gross inequities accumulate, unrest is likely to occur. While the Soviet Union is not the original cause of regional instability, it habitually fishes in troubled waters. The best long-term strategy for containing Soviet influence is to go to the source of the unrest, i.e. to treat its underlying social and economic causes.

A U.S. policy that accepts the new assertiveness and nationalism in the Basin can help to reduce the dangers of Soviet inroads. Similarly, a policy which encourages the settlement of disputes between nations, as well as internecine national strife, and which helps nations feel secure will reduce Soviet opportunities. The U.S. should avoid creating, or being drawn into, a situation in which an established government, such as Nicaragua, invites Soviet and/or Cuban troops, and by appealing to international legal norms is able to gain the diplomatic support of a significant number of other hemispheric states.

## **3. Cuba**

U.S.-Cuban competition for influence in third countries will remain a fixture in the Caribbean Basin for the foreseeable future, even if U.S.-Cuban bilateral relations should improve. A strategy for containing Cuban influence should concentrate on reducing the attractiveness of the Cuban connection to regional politicians and discouraging Cuban adventurism. A policy of preventive measures is preferable to a policy which reacts after the Cubans have already

<sup>17</sup>Several members of the Working Group believe that the United States should not tolerate the establishment of military bases elsewhere in the Caribbean Basin.

advanced. Preventive measures can include policies to foster trade and economic development, as well as the provision for selective increases in security assistance to threatened governments. A U.S. diplomacy which accepts genuine nonalignment and self-determination and seeks to offer leftists an alternative to a pro-Cuban, pro-Soviet alignment would be another fundamental element in a positive strategy to contain Cuban influence.

Cuba itself is likely to remain closely tied to the Soviet Union, at least for the foreseeable future. The Cuban economy and security forces are heavily dependent upon Soviet assistance, and Cuba requires Soviet support to implement its policy of "international solidarity" with revolutionary movements and governments. Thus, even a more friendly U.S. posture would not produce a sudden rupture between Moscow and Havana. At the same time, the Cuban government is interested in Western trade, capital, and technology, and would like to diversify its economic relations. It may be willing to reduce its activities in the Basin in exchange for improved relations with the West.<sup>18</sup>

Even today there may be elements in the Cuban government tired of the strain of expensive and risky foreign adventures which may be willing to consider compromise solutions to the conflicts in Central America and southern Africa. Despite the absence of clear signs at present, this is a development which may be increasingly likely in the future. Accordingly, the United States should continue periodically to talk to the Cubans, to clarify U.S. interests and intentions, and to probe whether the Cubans might be seriously willing to accept solutions to these conflicts that protect fundamental U.S. and Western interests.

### C. Political Issues

#### 1. Dealing with Diversity

The earlier section of this Policy Paper dealing with political interests suggested criteria for judging whether political regimes are compatible with U.S. interests. A policy which tolerates a diversity of political views from the right and the left makes it more difficult for the Soviet Union to pose as the defender of Third World nationalism. It also makes it much harder for pro-Soviet elements to convince their population that their nation's security requires a Soviet umbrella.

#### 2. Coping with Revolutionary Change

Many Caribbean Basin countries are unlikely to experience revolutionary upheaval, but the odds are good that some will during the 1980s.<sup>19</sup> If the revolutionary or other leadership is clearly aligned with the Soviet Union, persists in massive interference in the internal affairs of neighboring states, or engages in consistent and massive violations of basic human rights, a U.S. policy of hostility may well be warranted. In such cases, however, it is

<sup>18</sup>Some members of the Working Group believe that the historical record gives no cause for optimism that the current Cuban government would reduce its aggressive activities in the Basin in return for economic ties or political accommodation.

<sup>19</sup>Pat Holt maintains that the odds are good that more Caribbean Basin countries will experience revolutionary upheaval during the 1980s.

preferable for regional powers and neighboring states to take the lead in criticizing and isolating the pariah regime.

More often, however, the post-revolutionary situation will be fluid and uncertain. In such cases it may be possible to overcome historic hostilities and mutual distrust and to nudge the regime toward a nonaligned foreign policy and a degree of domestic pluralism. Again, it may be preferable for regional powers and organizations to take the lead in working with the revolutionary regime. In cooperating with other countries, the United States can try to moderate the regime's policies through a combination of penalties and incentives. The peaceful settlement or at least management of border disputes can also help alleviate tensions and moderate regime behavior.

The Sandinistas have not fulfilled their earlier pledges to be nonaligned and to develop fully pluralistic political and economic systems. Nevertheless, it may be too early to abandon relations with the Nicaraguan government. While a policy of hostility may force the regime to moderate its policies over the short term, it is likely that a hostile policy serves primarily to strengthen the hardline elements within the regime, possibly driving them even closer to the Soviet Union, while allowing them to appeal to popular support under the banner of nationalism.<sup>20</sup> A flexible U.S. diplomatic posture open to negotiating major differences but prepared to respond sharply to aggressive moves would have the advantage of possibly influencing Sandinista behavior in a favorable direction and, failing that, of at least not helping the Sandinistas to solidify their domestic hold. It would also improve the U.S. image elsewhere in the Caribbean Basin.

When confronted with revolutionary change, the United States should avoid prejudging regimes or overreacting to regime rhetoric. In some cases, a wait-and-see posture may be most appropriate. As the Atlantic Council's Policy Paper, *After Afghanistan—The Long Haul*, concluded:

[In dealing with difficult Third World governments] there will be cases where international inaction on the part of the West may be the wisest policy at a certain time. If, for example, internal factional divisions in a particular country are numerous, deep and conflicting with Western goals, it may be best to stand back and let the dust settle. If short-term advantages are not attainable, and short-term risks are not forbidding, it would certainly seem wiser in such circumstances to rely on the longer-term probabilities that policies of moderation will in due course emerge. (p. 41)

### **3. Supporting Democratic Governments**

It is essential that the United States support existing democratic governments. U.S. support for democratic governments is consistent with our own ideals.<sup>21</sup> Moreover, failure to do so will gradually corrode our own democratic

<sup>20</sup>Some members of the Working Group believe that the ideology of the Sandinista leaders make them implacably hostile to the U.S. interests, and efforts at cooperation will fail to alter their behavior.

<sup>21</sup>For an expanded discussion, see Robert Kennedy and Gabriel Marcella, *op. cit.*

values. However, the United States should not anticipate that democratic governments will necessarily support U.S. diplomatic objectives or international economic policies, although they are more likely to do so.

The United States can express its support for democratic systems in several ways. A global human rights policy lends moral support to those who are fighting for democratic ideas. In the allocation of U.S. economic assistance, preferential treatment should normally be given to democratic countries. Similarly, the U.S. can help democratic governments meet their genuine defense needs and protect them by working to reduce tensions in the region.

The United States should not engage in a missionary campaign to reproduce its own political institutions in the Caribbean Basin. A policy which tolerates diversity is more likely to protect basic U.S. interests. But where democratic institutions do exist, the United States—both public and private sectors—should lend them wholehearted support.<sup>22</sup>

#### **D. Economic Issues**

U.S. global and domestic economic policies have a profound effect on Caribbean welfare. The United States can also devise policies at the regional and bilateral levels that improve the prospects for growth and employment in Basin nations.

For reasons noted in the earlier section on U.S. economic interests, it is in the U.S. interest for Caribbean Basin economies to enjoy sustained growth. The rekindling of global economic growth is essential if the deterioration in the region's economies is to be reversed. The United States and other industrial nations must pursue fiscal and monetary policies which stimulate noninflationary growth. Only then will export markets revive, commodity prices rise, real interest rates fall, and commercial banks regain the confidence they need to resume lending.

##### **1. Finance**

Many Caribbean Basin countries expanded their foreign debt substantially in the 1970s and early 1980s. Even excluding Mexico, Venezuela, and Colombia, the region's commercial debt had surpassed \$5.6 billion by 1981.<sup>23</sup> In some cases, this debt accumulation proceeded at an evidently unsustainable rate. In all cases, lenders and borrowers were anticipating a healthy global international environment that would enable countries to meet their rising debt service burdens. These predictions were overly optimistic.

As throughout the developing world, many Caribbean Basin nations will have to reduce their borrowing rates and adjust their immediate growth prospects to take into account the adverse international environment. At the same time, public and private lenders should provide sufficient resources to facilitate this adjustment process, to make feasible the servicing of existing

<sup>22</sup>Robert Foster adds: "The United States should also responsibly assist democratic elements which seek to institute representative government adapted to local conditions."

<sup>23</sup>As described in an issue paper by Robert Bond and Marlies Carruth, "Lending to Central America and the Caribbean", presented to the Atlantic Council's Working Group on the Caribbean Basin.

debt, and to set the stage for renewed growth. Steps also need to be taken now that will assure that adequate capital is available to finance development over the long run.

The Atlantic Council Working Group on International Monetary Affairs, in its February 1983 Policy Paper, *The International Monetary System: Exchange Rates and International Indebtedness*, advocated the following solutions to the balance of payments and debt crises of the developing countries: 1) agreement by such countries with the IMF on programs to tighten domestic economic management and accommodate their payments positions to the prospectively lower levels of foreign borrowing; 2) renegotiation of existing external debt in a constructive manner, so as to bring service charges within current capacity to pay; 3) an adequate amount of new funds from private financial institutions as well as from public loans and grants sufficient to permit developing countries both to spread their balance of payments adjustment over a reasonable period of time and to continue economic development; 4) an early increase in IMF quotas of at least 50 percent, supplemented by an increase in the borrowing facilities available to the Fund. These recommendations are also applicable to the Caribbean Basin. A rapid and substantial increase in IMF resources, a continual, if lower, flow of new loans from commercial banks, and sufficiently orderly and flexible debt rescheduling mechanisms are all relevant responses to the region's economic problems.

These policies can help the Caribbean Basin states through their immediate liquidity crises. The longer-term capital needs of most countries, however, can best be met by the multilateral development institutions that provide loans at maturities and terms more appropriate for investment projects. Substantial real increases in the activity levels of the World Bank and the Inter-American Development Bank are required if they are to realize their potential for stimulating growth in the Caribbean Basin. Regional aid institutions, including the Caribbean Development Bank and the Central American Bank for Economic Integration, also deserve support.

U.S. bilateral assistance to the Caribbean Basin has increased substantially since the mid-1970s. This growth should be sustained and expanded. For reasons of burden-sharing, efficiency, and political impact, bilateral aid programs should be coordinated with those of other bilateral and multilateral donors.

## **2. Trade**

Without access to industrial-country markets, Caribbean Basin countries cannot earn the foreign exchange they need to generate growth and service their debts. In recognition of this nexus, President Reagan's Caribbean Basin Initiative (CBI) promises Central America and the Caribbean islands duty-free access to the huge U.S. market.

Different estimates exist regarding the likely impact of the CBI on Caribbean trade. Since 85 percent of U.S. imports from the CBI-eligible countries already enter duty-free and sugar and textiles are excluded, the added stimulus to trade may not be great. There is a danger that the CBI could be oversold. Nevertheless, it is an important demonstration of U.S. interest in the economic welfare of nearby developing countries.

As a preferential trading scheme, the CBI contradicts the principle of most-favored-nation treatment that guides U.S. and GATT trade policy. Moreover, many members of the Working Group believe that preferential treatment can appear to be a paternalistic or even hegemonic device. Nevertheless, the majority of the members of the Working Group believe that these objections should not be overriding. The CBI is consistent with the U.S. trade principle of moving in the direction of freer trade, and a GATT waiver can most probably be obtained. Appearances of paternalism can be avoided if the President determines that the CBI is open to all potentially eligible countries (i.e., excluding Cuba) without political discrimination.

A reduction in trade barriers may result in the loss of jobs in the United States, at least in the short run. Primarily for this reason, some members of the Working Group oppose this aspect of the CBI. In any case, the U.S. government ought to assist workers displaced by imports to train for and to find new jobs and should provide unemployment compensation in the interim. Otherwise, one sector of American society will pay disproportionately for a foreign policy initiative taken in the broader national interest.

### **3. Migration<sup>24</sup>**

The Caribbean Basin is the largest source of immigrants coming, legally and illegally, into the United States. In the 1940s and 1950s, approximately 500,000 Puerto Ricans moved to the U.S. mainland. For political and economic reasons, some 500,000 Cubans migrated to the U.S. between 1959 and 1960. Since then, immigrants have been coming from throughout the Basin and settling in a growing number of American cities. Most recently, many Central Americans have been traveling through Mexico to enter the United States. But Mexico itself is the most important sending country, and Mexicans account for the majority of the roughly three to seven million illegal aliens in the U.S. Given population growth, economic problems, and political strife, as well as the large wage differentials between the sending countries and the U.S., immigration pressures will increase and remain strong at least throughout this century.

Economic development in the sending countries can, over the long run, reduce the incentives to emigrate. In the meantime, the United States needs to exercise greater control over the flow of illegal migrants, who have become an underclass living hidden within American society. The Simpson-Mazzoli Bill includes several significant proposals for reducing illegal migration, including sanctions against employers who knowingly hire illegal aliens and an expanded temporary worker program to aid U.S. employers unable to find needed workers domestically. Simpson-Mazzoli would also grant legal status to those persons who can demonstrate they have been residing in the United States since a certain date.

Emigration confers some benefits on the sending country. It relieves labor-market pressures, and emigrants working abroad normally remit a portion of

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<sup>24</sup>For a more complete discussion, see Robert H. McBride, Harry E. Jones and David D. Gregory, "Issues for U.S. Policy in the Caribbean Basin in the 1980s: Migration", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin*, op. cit.

their earnings. Emigration does, however, deprive sending nations of some of their best educated and entrepreneurial talents.

In seeking to restrict the flow of illegal immigrants, the United States needs to be sensitive to the impact on sending countries. The United States especially needs to consult closely with Mexico on both the substance and implementation of new immigration regulations, including the impact that sudden drastic changes might have on Mexico's economic and political stability. However, an open U.S. border should not be the means by which Mexico and other countries further postpone needed reforms. Moreover, the U.S. absorptive capacity is limited, and some people believe it has already been exceeded.

#### **4. Energy<sup>25</sup>**

The United States has an interest in the continual development of secure sources of energy in the Caribbean Basin. While Venezuelan production has steadily declined in recent years, Mexico has become the single most important supplier of the U.S. market and a major source for purchases for the Strategic Petroleum Reserve.

The overriding U.S. interest in Mexico is political stability. Therefore, U.S. policy toward Mexican oil production should be framed in terms of the impact of oil on Mexico's broader economic and political development. The U.S. correctly has not been pressuring Mexico to raise production beyond a level where revenues can be usefully absorbed. Given the recent drop in the price of oil and Mexico's tremendous foreign exchange needs, Mexico possesses sufficient incentives of its own to increase petroleum production.

Venezuela's petroleum-rich Orinoco Tar Belt has attracted considerable attention as a means of enhancing a relatively secure source of supply. However, Orinoco development will be expensive and involve long lead times and difficult technological problems. The current softness in the oil market raises serious questions about the economic feasibility of developing the Orinoco deposits at this time.

Energy production in the smaller Caribbean Basin states, while having little influence on global or even U.S. supply, is important to the economies of the countries in question. The U.S. can take a number of steps to assist their development of energy resources, including: 1) AID can assist countries to develop energy projects that utilize the subsidies provided by the joint Mexico-Venezuela oil financing facility; 2) AID and other more specialized U.S. agencies can assist in the development of alternative energy sources, including solar, wind, biomass, alcohol, nuclear, and coal, as well as improving conservation measures; 3) the U.S. can encourage the World Bank to provide, possibly through the creation of an energy affiliate, increased financing for energy projects. The U.S. private sector can and should remain a major source of technology and capital for energy development in the Caribbean Basin.

<sup>25</sup>For a more complete discussion, see Edward F. Wonder and J. Mark Elliott, "Caribbean Energy Issues and U.S. Policy", in the Atlantic Council's *Western Interests and U.S. Policy Options in the Caribbean Basin*, op. cit.

## V. GENERAL FINDINGS

(1) The United States, Canada, Western Europe, and Japan need to focus concerted and sustained attention on the Caribbean Basin. The problems facing the region, however, are complex, and simple solutions will not suffice. If the United States and Western Europe are to defend their interests and make a positive contribution to the region, policies must be developed that are consistent, enjoy broad domestic support, and can be sustained over the long term.

(2) While it is useful to address the Caribbean Basin as a geopolitical entity, a major challenge to the United States will be to find the proper mix between regionwide, subregional, and country-specific policies. The circumstances of particular countries and subregions must be taken into account.

(3) The political change and breakdown experienced by several countries in the region—notably in Central America—are the result of long-term systemic problems, aggravated by Cuban and Soviet support for revolutionary forces. Existing political institutions have failed to adjust to new economic and social conditions and refused to incorporate newly emerging sectors of the population that were increasingly mobilized and politically aware.

(4) Faulty economic policies, inefficient government, and highly skewed income distribution also have contributed to political instability in some countries. While Soviet and Cuban propaganda, influence, subversion, and arms transfers certainly exist in the area, they are seriously aggravating factors rather than the fundamental cause of the problems of the region.

(5) Recently, the economic disruptions emanating from the global recession have exacerbated underlying political problems. While domestic economic management clearly could have been better in some countries, the force with which the international recession hit the Caribbean Basin would have had a severe impact on the best-organized of governments. Per capita income levels are in serious decline throughout much of the region.

(6) Despite the pressures for change and the gravity of the economic crisis, revolutionary upheaval will most probably be avoided in the majority of Basin nations. Open political institutions or enlightened elites, where they exist, should be capable of absorbing or accommodating forces for change. But in some countries in the region, institutions may be too rigid, the leadership too short-sighted, or the pressures too overwhelming to avoid more abrupt change.

(7) Economic and political modernization have altered the self-perception of the inhabitants of the region. Most of the region's leaders have developed a greater sense of their own national interests.<sup>26</sup> They seek a diversity of

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<sup>26</sup>Nicolas Ardito Barletta comments: "The majority of the small countries of the Caribbean Basin are keenly interested in pursuing national development policies within the framework of democratic institutions, relatively open and mixed economies, participation of their peoples in the work and the benefits of the development process and closely associated with the rest of the hemisphere and Western community. The United States can identify itself with that goal and support it strongly, in cooperation with other nations, with actions such as the Caribbean Basin Initiative recently approved by the U.S. Congress."

international ties in order to increase their own room for maneuver. Used effectively, this emergent nationalism can be an asset in a Western strategy aimed at helping the developing countries of the Basin defend their sovereignty against Soviet domination.

(8) The Soviet Union has made a heavy economic and diplomatic investment in Cuba, but has been unwilling to make similar commitments elsewhere in the region. The Soviets have been cautious, finding it more effective to act through the Cubans. For their part, the Cubans have stepped up their support to some guerrilla movements and are playing an active role in Nicaragua.

(9) U.S. interests in the Caribbean Basin have increased and broadened. The U.S. will always want to secure its southern flank against military threats, but other interests have also assumed increasing weight. Economic interests—oil, debt, trade, migration—are more salient. The U.S. political interest is tied to economic development and basic human rights. Therefore, U.S. national security interests must be defined broadly to include their economic, political, and social concerns.

(10) The Caribbean Basin today displays a widening diversity of types of political systems, ranging from Marxist-Leninist (Cuba), to various forms of liberal democratic and nationalist populist, to traditional dynastic (Haiti). In deciding a government's compatibility with U.S. interests, four rough guidelines can be applied. First, a government should not grant access to military facilities to hostile powers nor follow a policy of automatic alignment with the Soviet Union. Second, it should not interfere in the internal affairs of other states. Third, the government's legitimacy should derive not from force but from its responsiveness to the will of the people, optimally as expressed through free elections. Fourth, as required by U.S. foreign assistance legislation, the government should not engage in the "gross and consistent" violations of the basic human rights of its population.

(11) U.S. intervention in the internal affairs of any nation in the area will arouse general antagonism, but U.S. opposition to intervention by others is in the interest of every country in Latin America, even though this may provoke the resentment of groups that might benefit from such intervention. The U.S. should make crystal clear its position that each nation has a right to determine its own political institutions; we will, however, oppose external intervention by others, particularly if it involves or gives rise to the use of force, in the affairs of any country in the area.

(12) U.S. influence in the Caribbean Basin has been diminished by a series of developments in the international system, including the emergence of regional "influentials" and the generalized diffusion of power. U.S. policy has been further constrained by several domestic realities, including political, budgetary, and bureaucratic ones. Policymakers should strive to break free from some of these constraints. Budgets can be increased. Policy can be based on more accurate and timely assessments of local situations. Nevertheless, failure to take international and domestic constraints into account can lead to overambitious policies, and the inevitable policy corrections leave the appearance of inconsistency and incompetence.

(13) Given these constraints on U.S. influence, it makes sense to seek to work closely with other countries who share our fundamental interests, including Mexico, Venezuela, Canada, Western Europe, and Japan. Such cooperation may require that the U.S., these, and other friendly states modify some of their policies in order to pursue fundamental goals.

## VI. CONCLUSIONS AND POLICY RECOMMENDATIONS

### A. Immediate Security Interests and Political and Economic Cooperation

#### 1. Security Through Development

##### *Conclusion*

Solid support for socio-economic development must be a major component of long-term U.S. security policy in the Caribbean Basin.

##### *Recommendations*

The United States should embark on a comprehensive and imaginative program for Caribbean Basin economic development. Using all the instruments outlined below, this program can be realistically tailored to the present capabilities and future needs of this region. Such a plan should take into consideration the development experiences of the past and build upon the more successful efforts at regional integration, especially the Central American Common Market and the Caribbean Community (Caricom). It should be based on the strong desire of the countries in the area to participate actively and cooperatively in the design and implementation stages. The plan should focus on the development of infrastructure, agriculture, and exports; promote institution building and technical training; foster both private and public sector development; and be supported by multilateral as well as bilateral assistance.<sup>27</sup>

To be successful, U.S. economic policies should be based on regional cooperation. To this end, the U.S. should enter into an agreement with the Caribbean Basin countries and Canada for regular discussions at working levels and an annual review at the Ministerial level. In addition, the United States should continue to support the World Bank-led Caribbean Group for Cooperation in Economic Development.

#### 2. Enhanced Political Participation

##### *Conclusion*

In conjunction with an increased emphasis on socio-economic development, the United States should encourage the countries and peoples of the region in their efforts to further develop broadly-based representative political institutions and democratic processes. In many of the countries of the English-speaking Caribbean such an approach would contribute to a strengthening of existing democratic institutions. Most members of the Working Group believe

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<sup>27</sup>Pat Holt comments: "The fundamental problem of the area is social injustice; until this is remedied, massive economic assistance is more likely to make it worse than to start a process of economic growth. Experience with U.S. bilateral aid programs over 35 years suggests that they rarely work anyway."

that in some Spanish-speaking countries, despite historical and cultural tendencies toward more authoritarian models, trends suggest an increasing demand by the populace for political participation. Continued development of democratic institutions and processes would serve to develop mechanisms for interest articulation and to promote socio-political integration, thus enhancing the legitimacy of governments in the region.

### ***Recommendation***

The President and Congress should support the development of broadly-based representative forms of government with local institutions building upon the history and culture of individual countries.

## **3. Military Basing**

### ***Conclusion***

The United States should join with other Caribbean Basin countries to oppose the establishment in the region of additional Soviet or Cuban military bases, the major expansion of existing ones, or increased Soviet and Cuban access to existing facilities.

### ***Recommendation***

The United States should insist that the Soviet Union honor the three accords that limit its military capabilities in Cuba. The United States should also make clear to the Soviet Union and Cuba that it strongly opposes their establishing military bases elsewhere in the Caribbean Basin.<sup>28</sup>

## **4. Bilateral Security Assistance**

### ***Conclusions***

The military forces of the Spanish-speaking Caribbean frequently play a central role in their respective countries. In the past the military elites have generally been conservative and allied with traditional power structures. In recent years, however, there have been indications of an awakening of social and political conscience within some sectors of the military. This awakening creates opportunities for bringing about changes that are essential if political disorder and disintegration are to be avoided. If democratically oriented, the military can be a powerful and constructive force. As a result, security assistance remains an important instrument of U.S. foreign policy in the region.

### ***Recommendations***

Consistent with the four guidelines set out above, and mindful of the budgetary constraints of recipient nations, the United States should selectively extend its security assistance efforts where warranted in the region. U.S.

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<sup>28</sup>Several members of the Working Group believe that the United States should not tolerate the establishment of military bases elsewhere in the Caribbean Basin.

security assistance programs have not always been administered in a way which would be consistent with these guidelines. Training programs must highlight these goals. Most importantly, however, the impact of U.S. security assistance programs will depend heavily upon the broader political context in which they are implemented.

The U.S. should be disposed to increase military education and training programs for the states in the region that request it. These programs should include intensive discussions of the principles and practices of democratic government. In the Caribbean, the U.S. should provide assistance for maritime security and navigation safety as well as disaster relief. The role of the U.S. Coast Guard should be expanded in the Eastern Caribbean as part of the security assistance effort. The present restrictive legislation should be modified to permit police-type security assistance to those nations in the English-speaking Caribbean which rely exclusively on police and constabulary forces for security.<sup>29</sup>

## 5. Strategic Security

### *Conclusion*

It is unrealistic and unwise for the United States to consider the Caribbean Basin a *mare nostrum*. Moreover, several of our European allies can play constructive roles with the U.S. through "coalitions of the willing" in promoting the common interest in the security of the area. Clearly, NATO cannot be expected to extend its jurisdiction to the Caribbean Basin, but some governments with substantial economic and security interests in the area can coordinate policy and take coordinated action in particular cases.

Various European governments have been reluctant to undertake any functions south of the Tropic of Cancer. Nevertheless, all NATO nations have an interest in the ability of the United States to re-supply Europe in the event of hostilities, and the exchange of intelligence on developments in any part of the world is routine in NATO.

### *Recommendations*

A clearinghouse should be established for the continuous sharing of intelligence on Soviet and Cuban activity in the region. The United States and its allies should consult regularly, share intelligence and, where practical, coordinate action in regard to Soviet and Cuban military and subversive penetration in the area. A coordinating mechanism should be established to facilitate doing so. Some members of NATO, together with appropriate regional powers, should be encouraged to extend military assistance in the area.<sup>30</sup>

<sup>29</sup>Robert Leiken adds: "Security assistance efforts should supplement the defense perceptions and measures of the countries in question, and they should be directed at real external threats, not internal opposition."

<sup>30</sup>Pat Holt dissents: "I am skeptical of the recommendation for a selective increase in U.S. security assistance and particularly the recommendation that NATO and appropriate regional powers should be encouraged to extend military assistance to the region. The region is too militarized now; we ought to be discouraging rather than encouraging the injection of further arms. It is more likely that the region's problems will be resolved, or at least reduced, through political negotiation than through military action. To this end, we should, as the Policy Paper recommends elsewhere, place more reliance on the Contadora Group."

The United States and other member states should reassess the mission and functions of the institutions of inter-American military cooperation to explore whether they should enhance their roles as channels of communication and fora for reducing tensions.<sup>31,32</sup>

## **6. Dealing with Radical Nationalist Regimes**

### *Conclusions*

While Americans prefer liberal democracies, radical regimes of the left or the right have become a fact of life in the Caribbean Basin, and more may arise in the future. U.S. policy should strive to keep them integrated into the Western economic system and separate from the Soviet strategic network. A policy of confrontation will often fail to modify regime behavior in the desired direction, instead driving the regime further into a shell of distrust and hostility. There are times when a "wait-and-see" attitude will be preferable to sudden reaction to an immediate crisis.

Paramilitary covert action in Latin America tends to become public and thus be counterproductive—dividing Americans, discouraging enhanced U.S. participation in the region, and perhaps even escalating the involvement of outside interests. It also violates several international conventions, including the OAS Charter. In the Caribbean Basin, paramilitary covert action is especially likely to arouse nationalist sentiments against the United States and around the target regime and to cause other nations to distance themselves from the U.S.

### *Recommendations*

There should be a presumption against paramilitary covert action, especially where vital interests are not at stake, but its appropriateness can only be decided upon a case-by-case basis.<sup>33</sup> Most of the members of the Working Group believe that, in general in the Caribbean Basin, a full assessment of the likely costs and ramifications will more often tilt against such a policy. Instead, the United States should concentrate on a "counter-interventionist" policy of preventing the Soviet Union, Cuba, and Nicaragua from arming and supporting guerrilla forces in the region.

U.S.-Nicaraguan relations are severely strained. The U.S. should continue to press vigorously for an end to Nicaraguan subversion in other countries. At

<sup>31</sup>At least one member of the Working Group believes that the United States should attempt to revitalize the institutions of inter-American military cooperation for the purposes stated.

<sup>32</sup>The mechanisms of the inter-American military system include: Inter-American Defense Board; Inter-American Defense College; attaché network; periodic conferences of the chiefs of the armies, navies, air forces of the Americas; periodic exercises and maneuvers; military communications networks; peacekeeping and peace-observer missions (*ad hoc* only); U.S. military groups; the U.S. Security Assistance Program; U.S. military Latin American specialists; U.S. Southern Command Headquarters in Panama; U.S. military schools (in the U.S. and in Panama); exchanges of personnel, doctrine and intelligence.

<sup>33</sup>Brent Scowcroft maintains that: "There should not be a 'presumption against' covert action or any other of the operational instruments of policy available to U.S. decisionmakers. All options should be dispassionately analyzed including all advantages and liabilities, in light of the particular situation. Current emotional attitudes aside, the United States should not abjure consideration of those policy options which lie between diplomatic action or security assistance and the use of U.S. troops."

the same time, the United States should maintain a flexible diplomatic posture that is open to negotiating the major bilateral and regional differences as a possible means of weaning Nicaragua away from Cuba and the Soviet Union.

The United States should make increasingly strong efforts to probe for possibilities of inducing the Cubans to cooperate seriously in the peaceful solutions of conflicts in Central America and southern Africa. If significant progress can be made on these issues, the U.S. should reconsider its policies toward Cuba. If progress is not forthcoming, the U.S. should explore appropriate sanctions with its Western European allies while not excluding the possibility of other forms of pressure on Cuba.<sup>34</sup> In any case, the U.S. should continue to conduct intelligence overflights to verify compliance with U.S.-Soviet accords limiting Soviet military presence in Cuba.

## **7. Regional Cooperation and Peacekeeping**

### *Conclusions*

The greater nationalism and assertiveness of the nations of the region and the entrance of other powers make it difficult and more costly for the United States to gain the outcomes it seeks by working alone. Multilateral diplomacy, to the extent that it can be effective, may frequently be preferable to a unilateral approach to the region's security problems. The United States needs to work closely with other friendly nations and with multilateral institutions.

Violence in Central America threatens the interests of many states in the region, as well as our own. Our national experience in various parts of the world suggests that a go-it-alone policy in dealing with local violence, despite its advantages, can expose us unduly to adverse political consequences and even to national disaster. These potential hazards are underscored by the strong prohibitions against intervention in the Charter of the Organization of American States and other multilateral treaties.

The United States should therefore continue to hold open its options for multilateral action in support of agreed objectives in Central American countries wracked by violence. We should not automatically exclude proposals for negotiations between political adversaries that go beyond a simple preparation for national elections.

### *Recommendations*

The United States should be responsive to efforts of regional countries to coordinate approaches to the Caribbean Basin that are consistent with fundamental U.S. objectives. The U.S. should encourage the Contadora Group (Colombia, Mexico, Panama, and Venezuela) to continue its efforts to find political solutions to the conflicts in Central America.

The U.S., as a member country, should encourage and assist the OAS in

<sup>34</sup>Pat Holt comments: "I do not think U.S.-Cuban relations should revolve around Cuban policies in Central America and southern Africa. While important, these are only two of a number of issues between the two countries."

playing a constructive role in reducing tensions in the Basin and in providing or policing guarantees that are part of any treaties or settlements.

The U.S. should seek the establishment of international observer groups to monitor arms traffic and military movement across Central American frontiers. In appropriate circumstances and as elements of broader peaceful settlements, the U.S. should support multinational peacekeeping forces that serve as buffers and to maintain order.

The U.S. should continue to seek multilateral and bilateral political cooperation to counter such security-related problems as terrorism, gun-running, massive migration flows, and narcotics traffic.

The United States should try to work more closely with Canada, especially in the insular Caribbean. More particularly, the United States should encourage Canada to join the OAS; while Canada will sometimes differ with the U.S. on specific issues, its deeper involvement in the hemisphere's economic and security affairs is to be welcomed.

## **8. Cultural Exchange and Training**

### ***Conclusions***

The countries of the region lack sufficient adequately trained leadership and middle-level cadres for the task of building more prosperous and stable societies. The Soviet Union and their Eastern European and Cuban allies sponsor thousands of scholarships to bring less privileged students from the area to study in their countries. While many students from the region study in the United States, most are privately or personally funded. U.S. government-funded programs are generally at the more advanced educational levels and frequently favor upper income groups whose families already have strong American connections. The United States should significantly increase its efforts to train middle-level technicians, managers, and future leaders and to familiarize them with the U.S.

### ***Recommendations***

The United States should expand its government-sponsored scholar programs and insure that a higher proportion of funds are made available to the less-privileged for study in the United States in technical and vocational programs. USIA and other involved agencies should expand their leadership training programs in the region. They should reach across the social and professional spectrum to include business and labor leaders, public administrators, academics, journalists, military officers, and clerics. The President and Congress should broaden the "Institute for Democracy" concept, as outlined in currently proposed legislation, to an "Institute for Democracy and Economic Development" approach.

U.S. and Western European labor unions (including the AIFLD), human rights, and other humanitarian organizations and foundations should maintain and expand their activities in the region. While government encouragement may be warranted at an initial stage, relations are best maintained on an informal basis. U.S. embassies, however, should provide appropriate assistance to these private organizations.

## 9. Human Rights

### *Conclusions*

Many of the Caribbean countries have creditable human rights records. Under the stress of economic and social maladjustments, however, some have grossly violated their constitutional and international commitments to protect the civil and political rights of their people. The most glaring abuse is the practice of politically motivated murder by certain rightist Central American governments and by rightist and leftist terrorist groups. Similarly repugnant is the curtailment of civil and political rights by leftist regimes in the area.<sup>35</sup>

While the degree of emphasis has changed from time to time, human rights considerations have been a permanent element of United States foreign policy. In certain cases involving important national security interests, they must sometimes be subordinated to other factors. However, they should never be ignored. While avoiding interference in domestic politics, the United States ought to encourage improvement in human rights practices in the region through persuasion and, on occasion, through judicious modulation of political and economic instruments.

### *Recommendations*

The United States should, on appropriate occasions, make known its concern for the improvement of human rights practices by offending Caribbean governments. Its attitude toward indiscriminate slaughter of civilians from whatever quarter should be unequivocally clear. If geopolitical interests require cooperation with regimes in countries where rights are being systematically violated, the U.S. should nevertheless exert such leverage as it can to ameliorate abuses of personal, political, and trade union rights.

The United States should encourage international observation of human rights practices in Caribbean countries charged with abuses. For this purpose the U.S. should support investigation through OAS machinery, in particular through action by the Inter-American Commission on Human Rights. The public discussions engendered by the reports of this Commission can have an appreciable influence on governments.

In conflict-ridden Central America, the United States should be generous in its support for Costa Rica, the democratic showcase of the area. It must not be said that Costa Rican democracy fell because of U.S. neglect, or because the U.S. concentrated its economic assistance too narrowly on countries where democratic solutions are at best doubtful.

<sup>35</sup>Robert Sayre comments: "This paragraph makes two assertions which are dubious: (1) that politically motivated murders in Central America (which to my knowledge are by vigilante groups) represent a violation of human rights by the government of the country; and (2) that human rights abuses in Central America are the most glaring in the Caribbean Basin. The Cuban government, for example, executed a very substantial number of the opposition without any trials and keeps large numbers of political opponents in jail. The Cuban government has not executed any of the opposition recently, but that does not make the early conduct of the present Cuban government any less glaring. It was generally conceded when the Cuban government carried out large scale executions without trials that it did so for political reasons and that it was in full control. That is not the case e.g. in El Salvador today where a civil war is in progress, the government does not have full control over its territory or, in some cases, over persons who purport to act for it, and it is not clear that the government is either involved in or condones politically motivated murders."

## 10. Broadcasting

### *Conclusion*

The Soviet Union spends approximately \$3.3 billion annually on building its worldwide image through information programs. In contrast, the United States government spends about \$550 million on cultural exchanges, Voice of America, films, speakers, exhibits, and other aspects of "public diplomacy". However, most American culture and news are disseminated through private channels.

The Soviet Union and Cuba broadcast 486 hours a week to the Caribbean and South America in 10 languages. The United States government broadcasts 81 hours a week in 3 languages. While the Voice of America enjoys a high reputation as a timely and dependable source of information, Soviet and Cuban information programming is becoming more sophisticated and subtle. The United States needs to counter this propaganda by bringing objective information to listeners in the region.

### *Recommendation*

The United States should substantially increase the hours of programming and the number of broadcast languages to the region so as to increase understanding of events and of U.S. policies.<sup>36</sup>

## B. Financial Management and Economic Development

### 1. The Debt Crisis

#### *Conclusions*

The Caribbean Basin nations can recover from their deep economic recession only if the industrial countries resume sustained growth. Only then can their export markets expand, their terms of trade improve, and their attractiveness to investors be rekindled.

A most pressing problem facing the region is the management of the balance of payments. The immediate symptom of the financial imbalances in external accounts is the debt crisis. Alleviation of the debt crisis is a *sine qua non* for the reestablishment of an environment where investment and growth can occur.

During the 1970s, the nature of financial transactions between many Caribbean Basin countries and the industrial world changed radically. The ratio of private to official capital flows to the developing world rose rapidly as commercial banks undertook to recycle capital from surplus to deficit countries. In retrospect, it is now clear that the failure of official institutions to keep pace has resulted in a less stable international system. In the 1980s, a more balanced mix between official and private lending is required, both to manage the immediate liquidity crises and to finance future growth. Governments and multilateral institutions will have to play a greater role in steering financial

<sup>36</sup>Theodore Achilles comments: "Strengthening existing official and private broadcasting will serve U.S. interests more effectively than the establishment of the proposed Radio Marti."

relations between the OECD countries and the developing nations of the region.

### *Recommendations*

Many Caribbean Basin countries are working closely with the International Monetary Fund. Yet the IMF needs to be strengthened if it is to contribute an adequate level of resources to the region. The U.S. Congress should approve the substantial increase in IMF resources negotiated by the IMF member nations so that the quota increases can enter into effect in early 1984. To be able to manage the large current-account imbalances still facing some countries, the IMF should be permitted to provide standby funding in excess of current country-specific ceilings (450 percent of quota over three years); and member governments should support IMF borrowing from national governments and international capital markets if additional capital is required. IMF stabilization programs are more likely to be sustainable and effective if they do not require measures so severe as to be politically destabilizing.<sup>37</sup>

International capital markets need to be stabilized. The IMF, World Bank, commercial banks, central banks, and national regulatory agencies and governments of the OECD countries should embark upon a process of consultation to search for better ways to collect and disseminate information regarding external debt, and, more generally, to bring greater stability to international capital markets. National regulatory authorities should devise lending criteria which inhibit imprudent expansions of exposure or destabilizing, sudden retrenchments. More specifically, the International Institute for Finance can be a positive step in the direction of creating a clearing house mechanism for data on debtor economies.

The rescheduling of public and private debt should take place when it is necessary to bring service charges into line with a country's capacity to pay. Debt rescheduling should cover a sufficient number of years so that economic management can proceed in an environment of relative predictability.

While commercial banks will inevitably reduce net lending to risky markets, they should not become agents of instability by suddenly and drastically reducing net lending, leaving countries unable to meet minimal import needs and service their external debt simultaneously. While such actions may appear rational to the individual bank, if taken by many banks they risk deepening liquidity crises and possibly even precipitating *de facto* defaults.<sup>38</sup>

The developing countries must balance their expenditures with available financing. The developing nations of the Caribbean Basin should, as necessary and in agreement with the IMF, the World Bank, and the Inter-American

<sup>37</sup>Brent Scowcroft comments: "The IMF is not really suited to deal with the financial crises now occurring. The problems are frequently more deeply seated than the IMF assumes and as a consequence, IMF stabilization programs sometimes require measures so severe as to be politically destabilizing."

Sally Shelton comments: "IMF stabilization programs and commercial bank loan terms should be structured in a fashion concomitant with a country's ability to pay."

<sup>38</sup>Brent Scowcroft adds: "Governments and international institutions should intervene with assistance if necessary to insure that this does not occur."

Development Bank, implement policies to stabilize their external and internal accounts and accommodate their payments positions to the prospectively lower level of foreign borrowing by restraining imports, promoting exports and increasing domestic savings.

## **2. Long Term Development**

### *Conclusions*

Future growth will require sustained inflows of long-term capital. Since substantial long-term flows from commercial banks cannot be expected by most countries in the region during the next several years, official institutions—multilateral and bilateral—will have to take the lead in making capital available. Most importantly, external lenders must adopt long-term strategies to promote development in the Caribbean Basin.

The current level of political conflict and uncertainty in Central America is a severe impediment to economic development. Private domestic and foreign investment will remain very low until the region's politics become more stable and predictable. Moreover, economic assistance to Central America cannot be fully effective in fostering productive investment and development until political and military conflicts are resolved.

Where suitable political conditions exist, the private sector can play an important role in fostering economic development. In particular, U.S. firms can provide capital, supply technology, create jobs, and locate export markets for the region's products.

### *Recommendations*

To facilitate increased lending to the Caribbean Basin, the overall resources of the World Bank and the Inter-American Development Bank should be increased in real terms. As first steps, the U.S. Congress should promptly approve the pending replenishments of the World Bank's International Development Association (IDA) and the Inter-American Development Bank. Regional aid institutions, including the Caribbean Development Bank and the Central American Bank for Economic Integration, should receive the support of AID and of the World Bank and the IADB. In addition, U.S. economic assistance to the Caribbean Basin should be expanded. Bilateral aid programs should be coordinated with other bilateral and multilateral donors.<sup>39</sup>

In order to stimulate foreign direct investment, the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank should concentrate a rising percentage of their activities in the region to the extent that U.S. firms can be interested through the Caribbean/Central American Action program and other private-sector initiatives.

External donors and investors should give priority to training local manpower. At present, the ability of both the private and public sectors in some countries to absorb financial resources is hampered by the inadequate skills of labor and management. The Peace Corps and Executive Service Corps are

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<sup>39</sup>Sally Shelton adds that the United States should join the Caribbean Development Bank and fund a "quick disbursing" aid mechanism for the micro-economies of the small islands.

among the mechanisms available for transferring skills on a people-to-people basis.

The United States should seek a reduction in tensions in Central America that meets its security objectives as an important contribution to enhancing the effectiveness of development assistance and to creating an environment conducive to private savings and investment.

### 3. Trade

#### *Conclusions*

Expanded trade opportunities for the Caribbean Basin countries are essential if balance of payments problems are to be resolved and growth sustained over the long run. The internal markets of Caribbean Basin countries are decidedly limited by population and income levels. Especially for the region's smaller economies, exports can be the main engine of growth. Access to external markets is essential if countries are to obtain the benefits of specialization of labor and economies of scale. The one-way free trade zone between the United States and the smaller countries of the region, which President Reagan proposed as part of the Caribbean Basin Initiative, is a promising start in this direction.

There is also a clear correlation in the long run between expanding trade and decreasing pressures for migration.

#### *Recommendations*

The Working Group applauds the adoption by the U.S. Congress of the Free Trade Area provision contained in the CBI legislation. A majority of the members of the Working Group believe that all countries of the region (excluding Cuba) that wish to participate in the Free Trade Area should be permitted to do so on a non-political, non-discriminatory basis.<sup>40</sup> The objective of the free trade areas is to increase economic integration and political understanding, not to drive countries further apart.

Foreign assistance should be oriented, among other objectives, toward supporting increased intra-regional trade. Bilateral and multilateral aid programs should seek to promote export-oriented industries and agriculture. This can be accomplished by directly promoting private-sector firms, as well as by assisting the public sector to help create the necessary physical and human infrastructure, by financing transportation and communication projects, and by funding education and training for skilled laborers, management, and civil servants. To prevent increased financing of export-oriented efforts from reducing funding for basic needs projects that augment workers' productivity, total aid budgets must be increased.

<sup>40</sup>Several members of the Working Group, notably Susan Purcell and Robert Sayre, dissent. Robert Sayre notes: "The implication of this recommendation is that the criteria will be overlooked and that Nicaragua should be included in trade arrangements even if it continues its present conduct. The CBI and other special arrangements are not things we do because we have an obligation and another country has a right. They are political concessions and we should not be giving them away unless they serve a useful purpose in achieving the objectives along the lines of the four guidelines set forth in this Policy Paper."

Some U.S. workers will suffer from the rising level of imports from the region. Compensatory support should be provided to displaced American workers in the form of retraining and unemployment insurance.

#### **4. Immigration**

##### *Conclusions*

The United States wants to gain increased control over the flow of foreign immigrants across its borders. Additionally, Caribbean Basin efforts to reduce population pressures and attain sustained economic growth, combined with more open U.S. markets for Basin exports, can serve to alleviate migration pressures.

##### *Recommendations*

As a short-term measure, the Simpson-Mazzoli bill should be approved. Over the long term, emigration pressures can be moderated only if Caribbean Basin countries achieve sustained economic expansion and reduced population growth.

The U.S. Immigration and Naturalization Service should be enlarged and the quality of its personnel upgraded through higher entry standards, increased salaries, and higher grade levels. Amnesty should be granted to immigrants living in the U.S. since a specified date.<sup>41</sup> Beyond that, the annual intake of immigrants and refugees should be adjusted yearly, based on projected labor needs in the United States and family reunification considerations.

Potential employers of nonresident aliens should be required to demonstrate both a need for foreign labor and evidence that they cannot fill this need by using U.S. citizens and legal resident aliens. Many members of the Working Group believe that the Department of State should concur in the choice of which countries are eligible for temporary worker programs, with the understanding that preferential treatment might be granted on an exceptional basis to certain nations for humanitarian, human rights and foreign policy considerations.

#### **5. Technology Transfer**

##### *Conclusion*

An effective and lasting way to expand technology transfer from developed nations to developing economies is through education and training.

##### *Recommendation*

The U.S. private sector and educational community should explore with Congress the utility of tax incentives targeted at U.S. firms active in the Caribbean Basin for the education and training of Caribbean Basin nationals.

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<sup>41</sup>Robert Foster dissents: "Amnesty for illegal immigrants currently in the United States is undesirable because it would reward violators of immigration laws and decrease employment opportunities for U.S. citizens."

## **6. Energy**

### ***Conclusion***

The United States can take a number of steps to assist the smaller Caribbean Basin states as well as the major oil producers of the region to develop their energy resources. In particular, the United States should work closely with Mexico and Venezuela in addressing the region's energy problems.

### ***Recommendations***

The U.S. private sector should continue to be a major source of technology and capital for energy development in the Caribbean Basin. Moreover, the U.S. Government, in cooperation with the World Bank and appropriate regional organizations, should:

- Support increased World Bank financing for energy projects.
- Encourage the formation of broadly owned private sector Regional Energy Development Corporations to assess regional energy resources and requirements and to implement renewable and conventional energy supply and use programs.
- Encourage the formation of public and private sector financed regional energy research and development centers to carry out educational and technical programs supportive of these energy supply and use programs.
- Facilitate the transfer of technology for exploiting alternative energy resources: national laboratories should make available their technical resources on a low-cost or even cost-free basis to countries in the region. AID should step up its technical assistance, especially to enhance the region's institutional capabilities. AID should also work to develop energy projects that can utilize the funds generated by the joint oil financing facility of Mexico and Venezuela. The Department of Energy should make judicious use of the contracts of the Strategic Petroleum Reserve to provide a market for Mexican and Venezuelan oil, as a means of enhancing future U.S. energy security and of strengthening bilateral ties.

## APPENDIX

### *Additional Comments and Dissents by Members of the Working Group*

#### **COMMENT, by Robert Foster**

Although the Policy Paper represents a thorough analysis of U.S. interests and options in the Caribbean Basin, it places undue stress on limitations and constraints on U.S. policies. A bolder, more dynamic U.S. approach would better serve our long-term strategic interests.

The Caribbean Basin is important to the United States for its canal, sealanes, economic role, and petroleum. But overriding those tangible interests is the symbolic importance of the area. Although the United States does not and should not seek hegemony in the area, our nation must make a continuous, coordinated effort to influence area nations to cooperate with the United States in working toward common, mutually beneficial goals.

The establishment of a communist regime in Cuba over two decades ago served to introduce a Soviet military presence in the Western hemisphere and provided a base for subversion. Clearly, the United States must take prudent action, in cooperation with other nations, to prevent the emergence of more Cubas. Failure of the United States to exercise important influence in the Caribbean Basin would be another serious mark against America's world influence. Caribbean setbacks to U.S. foreign policy, added to those experienced recently in other areas, would be another substantiation of the Soviets' perception that the "correlation of forces" is moving in their direction.

#### **COMMENT, by Abraham F. Lowenthal**

I believe this report is timely, well informed, careful, measured, and balanced. It should contribute positively, therefore, to current discussions of U.S. policy options in which too many contributions lack these qualities. The report calls needed attention to the complexity of the policy conundrum for the United States in the Caribbean Basin, and thus effectively counters Washington's urge for simple answers.

But the report is ultimately disappointing, in part perhaps precisely because it strains so hard to be careful. The U.S. government, after all, is increasingly engaged in Central America's turmoil: undertaking major covert actions against Nicaragua, involving itself deeply in El Salvador's civil war, turning Honduras into a military base, staging massive naval and military maneuvers off the coasts of Central America, stepping up rhetorical and tangible pressures against Grenada and Cuba, and designing a long-term plan to assist the region's economic development. In this context of sharply escalating U.S. involvement, what is needed is a forthright statement of the nature and limits of U.S. interests in the Caribbean Basin and how best to protect them, a frank evaluation of current U.S. policy, and concrete suggestions for an alternative strategy. Instead, I fear, this report is somewhat unclear if not inconsistent in its analysis of U.S. interests, is excessively subtle not

to say muted in its assessment of current U.S. policy, and is mainly lacking in specific suggestions for new policy options.

The report's analysis of underlying trends in the Caribbean Basin is sensible, nuanced, and up-to-date, but its discussion of U.S. interests and influence is considerably influenced by anachronistic notions, axioms of a bygone era.

The United States must decide, and soon, what kind of national involvement makes sense in Central America's current turmoil. Prolonged upheaval without consolidation is more likely in Central America during the next few years than either revolutionary change or progressive evolution. The United States must decide how it would be affected by extended civil wars and must assess how much capacity it has to influence such upheavals. This report makes it clear, both by what it says and what it fails to say, why it is hard for the United States to face unpleasant realities in Central America and to make hard choices.

### **DISSENT, by Dale Good and William Doherty**

We regret that it is necessary for us to dissent from parts of the Atlantic Council's Policy Paper on the Caribbean Basin.

The identification and analysis of the major issues involved present an overall situation calling for U.S. actions adequate to deal with the region's problems. In our opinion the limited orientation of the Paper results in a failure to come to grips with some fundamental issues.

The Policy Paper is too limited in its orientation to make an adequate contribution to the requirements of steady economic progress and the overall problem of western security. The Paper does recommend that "the U.S. should embark on a comprehensive and imaginative program for Caribbean Basin economic development", but it fails to recommend what this would require: a substantial increase in grant and developmental assistance by the U.S. Emphasis is placed on trade, and the one-way free trade zone between the U.S. and smaller countries of the region as provided in the Caribbean Basin Initiative. In our view we should support programs which have as their objectives the stimulation of internal growth and improvement in the living standards of working men and women. Trade diversions do not meet this test. The chief beneficiaries of trade provisions of the CBI will be multinational corporations, which will be encouraged to increase their profits through wage exploitation, and degrading and unsafe working conditions.

We should be prepared to recommend the full cost of essential economic assistance and security assistance programs. We should all be aware of the long-term costs—and the benefits—of reinforcing our own strength by supporting around us a community of resolute, prospering societies. These programs are insurance against the possible necessity at some future date of a vast increase in military expenditures.

We also find the Policy Paper lacking in a full understanding of the nature of the basic political struggle being waged in the area. For example, we disagree with the analysis and conclusions concerning Nicaragua. The early hopes we all experienced with the July 1979 victory of the Sandinista revolution against Somoza quickly were shattered. Nicaragua today is a military dictatorship which has all but destroyed democratic political parties and the free trade union movement. There is no right to strike, no right to bargain collectively, no right to organize. There is no self-determination or right of *habeas corpus* in Nicaragua. As a matter of fact,

Defense Minister Commandante Humberto Ortega has publicly stated that if elections are to be held they will be "to consolidate revolutionary power, not to call it into question, because power is in the hands of the people through its avant-garde the Sandinista Revolutionary Front."

The Paper does discuss the roles of the Soviet Union and Cuba in the region, but concludes that "the best strategy for containing Soviet influence is to go to the source of the unrest: To treat its underlying social and economic causes." Poverty and social injustices are realities which must be dealt with, we should hope primarily for reasons of human rights rather than "strategy" for containing Soviet influence. In any case, whether the roots of the problem lie in social injustice or Soviet interference is an idle argument. If economic development programs to deal with poverty and social injustice are to succeed, we must concurrently with our economic assistance efforts be prepared to cooperate with democratic governments regarding the threat they face of guerrilla movements influenced and supported by Moscow. The post-World-War-II period clearly indicates that the Soviet Union will use its influence to prevent the correcting of social injustice by reforms, elections, and economic assistance, since these solutions would stand in the way of its objective of one-party communist rule.

Finally, greater attention needs to be paid to the role of labor movements in country development, as well as in improving the social and economic well-being of working men and women. A primary objective of our assistance programs should be to assure that economic benefits of development are shared equitably, and this requires development strategies which are employment-oriented and trade unions through which workers are able to protect their legitimate rights. We need to enlist free labor movements as partners in our assistance programs.

However, we cannot hope to gain the whole-hearted support of workers in the difficult and burdensome task of national development if they are without rights, without freedom, without justice, without bread. In granting assistance, a major consideration should be the adherence of recipient governments to the conventions of the International Labor Organization, especially those relating to freedom of association, discrimination, and forced labor.

The argument is frequently made by spokesmen of developing countries that emphasizing labor standards constitutes an obstacle to economic progress, and in developing countries labor standards should be limited so as not to jeopardize the nation's capital accumulation and long-term economic interest. However, detailed studies show that trade unions historically have pushed up productivity instead of acting as a brake on economic growth. They have acted as a stabilizing factor, helping to foster a sense of industrial commitment and discipline, and have played an important role in social and economic reforms. There is no substitute for trade unions as the workers' own instruments for obtaining a more equitable share of the fruits of economic progress, and we should encourage governments to support rather than attempt to control or suppress labor movements.

The role of labor in foreign affairs has become more than ever an important factor. The extent to which political stability can be strengthened in many countries depends on the extent to which labor genuinely supports economic and political objectives and programs. U.S. foreign policy depends for success in large measure on the activities and attitudes of labor movements, especially with respect to those countries where cooperative bilateral relationships are important to U.S. interests.

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The CHAIRMAN. I thank you for the testimony by both of you.

We will go on a 10-minute rule this morning for our questions.

I would like to start out with an article I read flying in from Chicago today which appeared in the New York Times. President de la Madrid, if you saw the article, held the first press conference that he has had with the international press and he said that the Kissinger Commission erred in its assessment that military options should be maintained in the area.

And he urged that we stay closer to the attitude of the Contadora countries, and then added that the attitude of Cuba "favors the negotiations of the Contadora group." He said that President Castro of Cuba appeared to be well disposed to comply with the accords being negotiated by the group.

It is not my impression that Mr. Castro's activities have contributed to peace and tranquillity in the area. I wonder if you would care to comment on the de la Madrid comments. Some of his policies I have concurred with. Some of his austerity policies internally I have concurred with. But I am just astounded at those comments.

General SCOWCROFT. I have not seen the article, Mr. Chairman. I agree with your assessment. I think that, while it is true the basic problem in the area is economic and social, it is difficult, if not impossible, to make real economic and social progress in the midst of military conflict, and therefore I think not to have a military dimension to our policy at the time, in an attempt to bring the violence to an end so that military and economic—so that social and economic progress can take place, would be a serious mistake.

I think our policy paper makes clear that we should be open to dialog with all of the countries of the region, but that we should not presume that especially Cuba has an intent to be cooperative rather than obstructionist. We should explore any opportunity for constructive dialog.

The CHAIRMAN. Mr. Greene, if you would care to comment on President de la Madrid, and possibly also both of you could address yourselves to the question as to whether or not you have familiarized yourself enough with the legislative proposals made by the Reagan administration following the Kissinger Commission report to know whether or not you would support those.

I believe the level of economic and military assistance is now up to 7 to 1, where it started under the Reagan administration at a level of about 3 to 1 economic versus military.

Mr. GREENE. Senator Percy, the comments of President de la Madrid would be those you, knowing the history of the country, and knowing its attitude toward U.S. intervention in the hemisphere, would be precisely those you would assume he would make. Whether he was making them for internal consumption or whether he genuinely believed what he was saying, I would not know.

I think part of your second question would have reference to the volume and the size of economic assistance which is envisioned in the Kissinger report. I think it probably would be futile to attempt to debate whether the absorptive capacity of the Central American countries involved will absorb \$1 billion or \$1.5 billion more this year.

One could list a host of problems in their absorptive capacity, the lack of infrastructure. This involves a sophisticated planning appa-

ratus which is nonexistent. There are very real dangers that graft and corruption would emerge. All of those problems exist, but I do not think the members of our group would conclude that one does not try anything.

I think the mark of wisdom would be to launch the program as envisaged by the Kissinger Commission, do it slowly enough, cautiously enough, and prudently enough so that those who would argue against anything like this sort of effort reaching any success, that we would have time to watch and see how the process went.

The CHAIRMAN. I very much would appreciate a little expansion on your comments about strengthening the IMF. Would you be specific about the \$8.4 billion replenishment? President Reagan is very strong in urging the Congress to act favorably upon that, depicting the possibility of a worldwide depression if it did not occur and if we did not act favorably.

What impact would it have had on Central America, for instance, if we had refused that replenishment?

Mr. GREENE. The impact on Central America and on the developing world in general and on the debt crisis, the nonreplenishment of the IMF funds would have been a disaster and a sign by the U.S. Government of its unwillingness to go forward in any constructive way in the solution of a problem.

The debt problem and the financial balance of payments problem extend far beyond and in some areas of the world are much more aggravated than in Central America. I think I could speak for the Council commission in saying that we would applaud that initiative. It remains to be seen whether \$8.4 billion in a world where balance-of-payments deficits of the developing world are some multiple of that every year, whether that in and of itself will be sufficient.

The CHAIRMAN. General Scowcroft.

General SCOWCROFT. I would just add, Mr. Chairman, that our abilities and our structure for dealing with the kind of massive financial monetary problems that the world is facing now are imperfect and may be insufficient. I think we need all that we can get, and I think the role of the IMF is central in trying to cope not only in the Central American region but with the world economic crisis.

The CHAIRMAN. I would like to turn to a conclusion of the Atlantic Council report with which I certainly concur. The finding was that the political change and breakdown being experienced by countries in Central America was the result of long-term systemic problems which were certainly aggravated by Cuban and Soviet support for revolutionary forces.

We cannot help but recognize that the attempt of the guerrillas to destroy totally the infrastructure of the country of El Salvador in the name of saving them—how in God's name do you keep an economy going when you are destroying bridges, you are shooting out every transportation system, destroying roads, attempting to disrupt and destroy the country, break its morale and its work ethic, and do so in the name of the good of the people?

Is it possible, however, to treat long-term economic, social, and political inequities without dealing with the immediate military problems that support insurgency and subversion?

**General Scowcroft.** I think, Mr. Chairman, the two must go hand in hand. I think to keep in abeyance all efforts to improve the economic and social situation in the countries of the area, and especially in El Salvador until the military situation improved would be a serious mistake, but conversely, I think no amount of economic assistance, for example, in the absence of the minimal amount of security can be useful.

So, I think the two of them must work jointly together if we are to deal effectively with the situation there. I think that one of the important aspects, while we did not get into the depth in dollar figures that, for example, the Kissinger Commission did, I think the important thing to remember is that it is vital to do enough to make it work, and that cutting back on the amount just to keep the situation the way it is perhaps the worst of all alternatives, and we ought to look at assistance with that in mind.

The CHAIRMAN. Mr. Greene, maybe we could start with my last question with you, and then a comment also by General Scowcroft.

I argued yesterday in my opening statement that I feel if you just look to the south of Central America, Panama is the major link between the east and west coasts of the United States for both our economy and our security, and if you move up north to Mexico with its 2,200 miles unguarded border with us, with tens of millions of crossings a year, our security would seem apparent, and yet Dr. Kissinger's opening statement, which argued that the situation in Central America affects our national security interests, has been argued against by many people who say that our national security interests really do not lie in Central America.

Would you clarify your own findings as to whether our true U.S. national security interests are deeply involved in what goes on in Central America?

Mr. GREENE. I think my colleague, Mr. Kennedy, wants to comment, Senator Percy, on the prior question. I will let him get in at this point.

The CHAIRMAN. Very well. Thank you.

Mr. KENNEDY. I think it is important to understand that the council's report points not just to economic and military assistance in the region as the policy tools that we have available to us. As you have rightly pointed out, Senator Percy, the problem is an extraordinarily complex one. You do have in some of the countries of the region an enormous amount of political weakness. You also have a compounding economic problem, and these two are being exacerbated clearly by civil disorder which threaten the economic—which also threaten the political side of the spectrum.

In addition, some of the more fragmented countries have the same problems that many other underdeveloped countries have in addition to some additional ones, problems of intense nationalism, problems of a Marxist subculture, problems of previous capitalist exploitation, a perception of U.S. support for traditional elites who they have seen exploiting certain latent anti-Americanism.

They have the problem of Cuban propaganda, they have the problem of Cuban intervention, and they have the problem of Cuban and Soviet arms support. All these suggest that it has to be an effort that

is undertaken with all the instruments, that is, the instruments of information that we have at hand, that is, to clarify our position in the region, the values we are pursuing.

Also, intelligence, intelligence of the kind that gathers information that allows us to build policies that exploit differences between, for example, elites in the Nicaraguan regime, perhaps, differences of opinion within the Cuban leadership. Unless we gather that kind of intelligence, then we are simply not going to have a full panoply of policy instruments brought to bear in this region.

And I think the region, without preanswering what Mr. Greene is going to address here, the region is worthy of the application of those policy instruments for a variety of reasons, but if for no other reason that it is, one, close to our border, and two, it is perceived to be close to our border and in our interest by many, many countries of the world, and our failure to act effectively but maturely in that region, I think, will severely undermine our capacity to effectively act elsewhere in the world.

The CHAIRMAN. Thank you.

Mr. GREENE. Senator Percy, I do not recall any member of the working group who did not agree that Central America and the Caribbean Basin were important areas of interest to the United States. I think there was unanimity of opinion on that in both the Kissinger report and our own elaborate way.

I think the source of our concern would not be, is it important, but after the meetings of the Senate Foreign Relations Committee and the appearance of some of this testimony on the front page of the Nation's newspapers, how long will the Congress and the U.S. public be able to sustain an interest in this part of the world, and if and when fighting disappears, as we all hope it will, in this part of the world, will the interest of both the Congress the public wane, and will all of this be looked upon as one other abrupt, frenetic expression of interest by the U.S. Congress and public which quickly disappears when the headlines disappear from the front pages of the paper.

And if we launch, and speaking personally, I hope we will, in a broad gage support of the Kissinger Commission report, all this will have been for naught if those of you who serve on this committee in such a distinguished capacity and the rest of us involved in the hemisphere forget 2 or 3 years from now what we are all saying today.

The CHAIRMAN. Thank you.

General.

General SCOWCROFT. If I might just add a word to what my colleagues have said, while the focus of our study was broader than simply Central America, and included the whole Caribbean region, I think we were unanimous in feeling that our interests in the area were not only important but were broadening, and were increasing in importance.

One of the new elements is one to which you alluded, and that is the issue of migration, which given certain circumstances in the area, could pose a new and extremely complex and difficult, not only social and economic but a security problem for the United States.

The CHAIRMAN. Thank you very much.

Senator Pell and my colleagues, I see that I have run overtime, so do not restrain yourselves. Senator Pell.

Senator PELL. Thank you very much, Mr. Chairman.

First, a specific detail, but one that interested me. In the report, on page 36, you say, the role of the U.S. Coast Guard should be expanded in the Eastern Caribbean.

As a retired Coast Guard officer, I was very interested in that. How do you see it being expanded? What cutters would be used?

Mr. KENNEDY. I think what the working group felt with respect to the Coast Guard was that many of the countries of the Eastern Caribbean lack the kind of establishment to guard their borders against not only the infiltration of armaments across borders but the infiltration of drugs, et cetera. The Coast Guard can perhaps be employed in training those to assist these countries in developing a capacity to not only prevent the movement of arms but also to prevent other kinds of undesirable cross-border activities that have been taking place regularly in that region.

Senator PELL. I commend you for this approach, because I have always felt that the Coast Guard cutters, painted white like the dove of peace, have a beneficial public relations effect and are perhaps better than our gray vessels of war when they are scattered around on a diplomatic or presence-keeping mission. I do hope that effort will be pushed along very much.

Now, on another subject, I would like to have inserted in the record and ask unanimous consent to insert in the record a report prepared by a rather liberal group, the Institute for Policy Studies, because I believe all viewpoints should be represented, and I ask that that be inserted.

The CHAIRMAN. Without objection, it will be inserted at this point.  
[The material referred to follows:]

*Executive Summary*

# CHANGING COURSE:

Blueprint for Peace in  
Central America and the Caribbean



CHANGING COURSE: BLUEPRINT FOR PEACE  
IN CENTRAL AMERICA AND THE CARIBBEAN

SUMMARY

INTRODUCTION

The United States is headed toward direct involvement in an unnecessary war in Central America. Today, the U.S. has some 15,000 troops in Central America and the Caribbean, warships patrolling off the coasts of Nicaragua, and a complex of military bases under construction in Honduras. The CIA is funding and directing guerrilla attacks on Nicaragua. The U.S. is arming and training the military in El Salvador and Honduras. U.S. officials have even sought to pressure Costa Rica, the sole de-militarized democracy in the region, to begin a military build-up. The Administration has committed itself to a regime in El Salvador which faces increasing popular resistance. The possibility of direct U.S. intervention to save that government from defeat grows as other options are narrowed.

To counter growing Congressional and public opposition to the covert war against Nicaragua and the escalating military commitment to the government of El Salvador, President Reagan appointed the National Bipartisan Commission on Central America, chaired by former Secretary of State Henry Kissinger. The so-called "Kissinger Commission" is designed to create a broad consensus by treating events in Central America as threats to U.S. national security.

As this report suggests, no consensus on intervention in Central America is possible. Moreover, to designate Central America as a national security crisis can only worsen a bad policy, creating a false premise that will lead to a disproportionate response. To serve the interests of the United States, the course of U.S. policy in Central America must change. This report presents an alternative blueprint, based upon careful delineation of U.S. interests and a sense of proportion about the events in Central America.

I. THE NEED FOR A NEW POLICY

A. Current policy distorts U.S. interests in Central America. The region is being converted into a battleground for the global East-West competition. Policymaking responsibility has been shifted from State Department professionals to "crisis managers" who know little and are quick to seize upon military "solutions" that, in fact, solve nothing.

The resulting failure is self-evident. Current policy has helped push Central America further from peace and stability and closer to regionalized war. It has produced an alarming escalation of U.S. military and financial commitments, quite out of proportion to the interests at stake. It has already created political division within the United States itself. Finally, U.S. credibility has suffered, both in the hemisphere and in Europe, where our allies oppose the course of U.S. policy.

B. The policy has failed because it is built upon false premises. It places a Cold War context upon social revolutions long in the making, indeed, long expected. A sensible policy must come to terms with the causes and implications of these revolutions.

1. The revolutions and civil wars in Central America have indigenous roots. They are not products of a Soviet-Cuban conspiracy. The aid provided by Cuba to post-revolutionary Nicaragua and to El Salvadoran rebels has not been a major factor in the struggles. Indeed, aid from western governments, political parties, and religious organizations surpasses that provided by the Cubans and the Soviets.

2. Successful revolutions in Central America need not threaten U.S. national security. The U.S. already trades with and aids a range of communist and socialist governments. Some, like China, are seen as virtual allies against the U.S.S.R. Neither revolution nor socialism inevitably result in Soviet domination. In Central America, any post-revolutionary regime will require external assistance. Western Europe, the United States, and Latin American oil-exporters are necessarily the preferred sources of that aid. A sensible U.S. policy would be to assist post-revolutionary governments, not force them to rely upon the Soviet Union and Eastern Europe.

C. The United States needs to change its course in Central America. A clear definition of U.S. interests provides the basis for a new course. The invocation of a national security crisis cannot be allowed to distort the manner in which those interests are considered.

## II. THE INTERESTS OF THE UNITED STATES

A. The most serious hemispheric threat to U.S. economic well-being derives from the debt crisis, not from the upheaval in Central America. Unprecedented debts afflict the major countries of the hemisphere - Mexico, Brazil, Argentina, Chile, Peru - producing domestic austerity and social unrest. Possible default threatens major U.S. banks, if not the international monetary system itself. Yet this real threat to our economic security receives but a fraction of the attention devoted to Central America.

B. The United States has security concerns in Central America. These are less military than political and economic concerns. The overwhelming military power of the United States insures against any military threat. Needless to say, the U.S. does not want hostile bases in this hemisphere, nor regimes that thrive on anti-American postures. These security objectives are best insured by controlling what has become an almost Pavlovian response to revolution. Revolutionary nationalism is a dynamic force in world politics. In this hemisphere, mass poverty amidst ostentatious privilege and political repression has made revolutionary upheaval likely, if not inevitable, in several countries. A mature understanding of our security requires that we come to terms with historical movements and forces, and not seek to counter them through military intervention.

C. Peace is the precondition to development and to stability. War is not only costly in lives and resources, it undermines democratic institutions by reinforcing the military. In Central America war generates large numbers of refugees, some of whom end up in the United States.

Increasing militarization of the region has the same effect as war, even if the fighting does not spread. The U.S. interest is to lower the level of violence in Central America, to impede the regionalization of internal upheavals, and to decrease the level of resources used on military expenditure.

D. The United States has an interest in human rights and democracy and should clearly demonstrate its support for the respect of human rights and democratic institutions in Central America. When the United States identifies its interests with regimes that are gross violators of human rights, or those which show contempt for democracy, this nation betrays its most basic values and damages its own credibility. Revolutions arise not

simply from poverty, but from economic injustice and political repression that suffocate reform. Fostering equitable development and democratic institutions serves U.S. security concerns, and helps to create domestic support for U.S. policy. Moreover, it is the only way to guarantee long-term stability and peace.

Promotion of human rights and democracy requires more than creating elections to mask a regime in El Salvador that is dependent upon a state security apparatus to terrorize the population. Democratic institutions can be undermined as much by burlesquing them as by suppressing them.

E. U.S. policy requires substantial domestic support and international credibility in order to succeed. The current Central American policy has gained neither. In fact, the most important Latin American nations have expressed serious misgivings about the growing U.S. military buildup in Honduras and El Salvador, and about the ongoing undeclared war against Nicaragua. At home, important Congressional leaders, reflecting the views of their most vocal constituents, have promised that the President will face stiff opposition to requests for more military aid to El Salvador and more funds for the CIA's war against Nicaragua. Public opposition will grow as the costs and the risks of the current policy become clearer.

In Central America, a different course can be charted. Confidence in our own economic and military strength enable us to elaborate a policy which is accepting of change, which reflects the best of our values and which serves U.S. interests.

### III. RECOMMENDATIONS: CHANGING COURSE

#### A. A Program for Peace

The final report details more than twenty recommendations to implement a new course in Central America. In this summary we outline the key steps that follow from pursuit of U.S. interests in the region.

##### 1. Regional Demilitarization

The United States should take immediate initiatives to halt the regionalization of the conflict in Central America. The U.S. should withdraw its troops from Honduras, and its ships from the coasts of Nicaragua. The United States should place its full support behind the Contadora process, seeking to end all outside military involvement in the region.

## 2. Nicaragua

The United States should terminate all support for counter-revolutionary forces based in Honduras and Costa Rica. The attempt to isolate Nicaragua politically and economically should be ended. The covert support of terrorists is unworthy of the United States, and violates both U.S. laws and interests. The United States should work with the governments of Nicaragua, Honduras and Costa Rica to develop a humane resettlement plan for those recruited to fight the covert war.

The United States should then engage the Nicaraguan government in a process aimed at restoring full relations. The Contadora group has offered its auspices for such discussions, Nicaragua has proposed that bilateral discussions might be more suitable. Commitment to either would be an appropriate response to Nicaraguan initiatives which suggest that negotiations can settle all outstanding questions.

## 3. El Salvador

The United States should place its weight behind a negotiated solution in El Salvador, one which will limit the violence and destruction suffered by the people of that country. The process of negotiation becomes more difficult day by day as the war escalates but a political compromise in El Salvador is still possible. No negotiated solution is possible without permitting all the contending parties to participate in the political process on equitable terms. The goal must be fair democratic elections, but these cannot take place in the midst of war. Again, the Contadora nations offer a collective auspices for working towards the end of violence.

Progress towards this objective requires that the United States distance itself from the current regime. Military aid should be halted. Economic aid should be conditioned on movement towards a negotiated settlement. The FDR-FMLN's legitimate, political status should be recognized by the U.S. government as it is by many of our allies.

A successful negotiated solution would lessen the destruction in El Salvador and diminish the danger of regional upheaval. It would also give the United States great credibility in Europe and in the hemisphere. If efforts to negotiate were unsuccessful, the United States would not be tied to an illegitimate regime whose existence depends on external U.S. aid and internal death squads.

#### 4. Honduras

The current military build-up in Honduras should be reversed. The United States should support democratic institutions and citizen organizations in Honduras, in the hope that democracy can be encouraged. A large and powerful military in Honduras will preclude that possibility and undermine positive economic or social reform.

#### 5. Guatemala

The United States should maintain a firm arms embargo on the regime that is a consistent and gross violator of human rights. It should raise its voice against the Guatemalan government's continuing war on the Indian population of that country. A clearer U.S. voice on human rights in the region will strengthen democratic forces in Guatemala. Aid to Mexico, dispensed through official and private organizations, can help to alleviate the conditions of the thousands of refugees who have fled from the violence in Guatemala. It can also help Mexico manage a growing economic and social burden.

#### 6. Costa Rica

Costa Rica is a democracy without a military establishment. It now faces economic bankruptcy. U.S. support is both necessary and essential. The Costa Ricans should be encouraged in their policy of neutrality in Central America. They should be granted U.S. economic assistance to alleviate their external debt, and to help restructure their economy.

#### 7. Cuba

For twenty-five years, successive administrations have sought first to overthrow and then to isolate the Castro regime. To this day, Cuba is the target of a continuing economic embargo.

It is time to begin a process designed to achieve normal diplomatic and commercial relations. Isolation will not undermine it; intervention would violate solemn agreements, arouse the hostility of most of the nations of the hemisphere, and would have consequences that could endanger our own security. Steps must be taken to reassert the natural influence of the United States on this country, located ninety miles off our coast. An end to the U.S. embargo will lead to a resumption of normal diplomatic and trade relations. Increased trade can begin the reintegration of Cuba into hemispheric relations. Ultimately, Cuba could become a partner in Caribbean Basin development.

The reduction in Cuban dependence on aid and trade from the U.S.S.R. may well decrease Soviet influence. It could enable the United States to regain a positive influence on the island. In any case, it could not produce worse results than the current policy which sustains embittered relations without apparent end.

#### B. A Program for Development

1. Peace is a prerequisite to development in the region. Without peace, development assistance will be used to subsidize the fighting. Capital flight and physical destruction will drain the countries of their resources.

2. Traditionally, in Central America and the Caribbean, development has promoted the interests of a small elite, on the assumption that growth would aid the majority. The result, when successful, has been economic growth without social development, increasing the disparity between rich and poor. A new program for development must reverse this priority.

#### 3. Aid

Assistance to the region should adhere to guidelines designed to induce equitable development. Aid to corrupt governments can serve to exacerbate inequalities and fuel tensions, countering our interests. Underlying principles would include:

a. Support for democratic institutions. This would include government-to-government assistance to favor those countries with policies in place that narrow the gulf between rich and poor. Direct assistance should also be given to institutions which represent the poor - farmer's unions, cooperatives, women's organizations, labor organizations, community groups.

b. Promote regional cooperation. Economic assistance should encourage regional projects. Attempts to exclude countries from regional development planning are self-defeating because the economies are naturally linked.

c. Encourage collective planning and implementation. Regional planning and cooperation should bring other donor countries - such as Mexico and Venezuela - and recipient countries into the planning process.

d. Promote economic diversity. Assistance should seek to reduce external dependence on food and energy imports and to diversify exports of the countries involved.

4. Trade

- a. U.S. trade policy should be liberalized toward the region, but liberalization should be linked to equitable development strategies and adequate protection for U.S. workers.
- b. Trade policy must respond to the dependency many countries in the region have upon one or two commodity exports, and the havoc wrecked by fluctuating prices in those commodities. The U.S. should consider creating limited commodity arrangements to provide protection against this fluctuation.

5. Debt

The debt problem in the hemisphere is part of a global debt crisis. To respond, the United States should work internationally, through the IMF and other international institutions, to develop a long-term plan for renegotiation of the outstanding debt. Without such efforts, aid may simply be subordinated to debt repayments, negating any possibility of development.

6. U.S. Economy

- a. Any U.S. assistance policy towards the region must be accompanied by domestic programs to assist U.S. workers displaced by the flight of capital or jobs abroad.
- b. Similarly, concrete steps must be taken to guarantee basic rights to immigrant workers. Development and peace in Central America would do most to limit the influx of refugees. Steps must be taken to limit the use of this vast, non-unionized, exploitable labor force as an instrument to drive down wages or to break unions in the United States.

**SENATOR PELL.** I would also like to refer back to the article in the New York Times today concerning President de la Madrid which was raised by our chairman. I, too, have read it this morning. I must say I came out somewhat in support of the points he was making, and would ask unanimous consent that this article be inserted in the record as well.

**THE CHAIRMAN.** Without objection, it is so ordered.

[The article referred to follows:]

[From the New York Times, Feb. 8, 1984]

#### MEXICAN CAUTIONS U.S. ON LATIN MOVES

(By Richard J. Meislin)

MEXICO CITY, Feb. 7.—President Miguel de la Madrid of Mexico called on the United States today to lessen its emphasis on military means to deal with the problems of Central America.

He said the United States Government should "come to the conviction that a military intervention, far from solving the problems, would aggravate them and they would be more extensive in Central America, if not in all of the neighboring area."

"The people of the United States want to avoid the risk of their military participation in the area of Central America," Mr. de la Madrid said.

Mr. de la Madrid made his remarks at an hourlong news conference for foreign correspondents at Los Pinos, the presidential residence. It was his first such meeting with the foreign press.

#### COMMISSION'S REPORT FAULTED

He said the recent report of the Bipartisan Commission on Central America, led by former Secretary of State Henry A. Kissinger, erred in its assessment that military options should be maintained in the area. "I would recommend to them a more careful reading of the document of objectives of the Contadora Group," he added.

The Contadora Group, which consists of Mexico, Panama, Colombia and Venezuela, is named for the island off Panama where their foreign ministers first met 13 months ago to begin working of a negotiated solution to Central America's conflicts.

Contrasting with his remarks on the United States, Mr. de la Madrid said he believed the attitude of Cuba "favors the negotiations of the Contadora Group." He said that President Fidel Castro of Cuba appeared to be "well disposed to comply with the accords" being negotiated by the group. These include a reduction in arms supply and trafficking in Central America and the removal of foreign military bases and advisers from the region.

Asked about the recent upswing in activity by United States-backed rebels battling Nicaragua's Sandinista Government, Mr. de la Madrid said: "Mexico laments whatever act that aggravates the situation or that impedes the peaceful solution of the controversies. Mexico calls once again on all interested countries to abstain from acting in any form that would impede the establishment of peace in the countries of Central America."

#### NO IDEOLOGICAL RESTRICTIONS

The Mexican President said industrialized countries must come to the aid of developing countries to "improve their living conditions," but must do so without placing ideological restrictions on their aid. He said the major powers must respect the right of self-determination of the people.

On another matter, Mr. de la Madrid said he believed his campaign of "moral renovation" for Mexico had registered some successes, but not so many as he had hoped.

He said this was, in part, because of his Government's desire not to create a "climate of terror" and to adhere strictly to legal process in pursuing those believed to be involved in corrupt activities.

Asked about the possibility of an investigation of his predecessor, José López Portillo, Mr. de la Madrid said "we have only proceeded in those cases where there has been definite evidence," implying that there was not such evidence against the former President. Mr. de la Madrid gave a similar response when asked about the leaders of Mexico's Petroleum Workers Union.

#### LACK OF ACTION QUESTIONED

Mr. López Portillo is widely believed by the Mexican public to have profited greatly from his six years in office. And the union leaders have been publicly accused by a former colleague of having sacked millions of dollars from the union's coffers. The lack of action against these figures has led to some questioning among Mexicans of the sincerity of Mr. de la Madrid's anticorruption campaign.

But Mr. de la Madrid said that "the law applies to all and will not be subject to pressures, international or internal."

On Mexico's economy, the President said he believed the Government had mitigated some of the worst effects of its economic crisis and would "gradually recover the standard of living that we lost."

Senator PELL. Thank you.

In connection with Cuba, I was very much struck by your paragraph saying, "Even today, there may be elements of the Cuban Government tired of the strain of expensive and risky foreign adventures," et cetera, et cetera. "Despite the absence of clear signs at present, this is a development which may be increasingly likely in the future. Accordingly, the United States should continue periodically to talk to the Cubans, to clarify U.S. interests and intentions, and to probe whether the Cubans might be seriously willing to accept solutions to these conflicts that protect fundamental United States and Western interests."

Yesterday I raised with Dr. Kissinger the report that appears in the current issue of the New Republic to the effect that the Cubans have been in touch through a Costa Rican economist intermediary and are trying to throw out one more sign of peaceful intent, or at least an indication that they want to lower the temperature. And I have always been struck by the fact that we always look at problems through our eyes, but never through the eyes of our opponent, and if I were a nation that had been sought to be economically strangled for the last 24 years, one major invasion, the Bay of Pigs, and only the CIA knows how many minor invasions, and had my chief of government sought to be assassinated once, maybe twice, unsuccessfully, there would be a residue of ill feeling there.

And my thought here is, will you be able to pursue this idea of seeing if we could lower the temperature? My own view is that we should normalize relations with Cuba from the viewpoint of exchanging ambassadors, settle up the nationalization of property as we did long ago with Mexico, and see if we cannot have the relationship we have with Bulgaria or other Communist countries, which are not friendly but at least normal, and perhaps that would reduce some of the hatred and violence of the situation in Central America.

I was just interested in what the view of the Commission might be to that thought. General Scowcroft. Mr. Greene.

General SCOWCROFT. Senator Pell, I think that the working group felt in general that we should always be open to dialog, and that while it was not without risk in that it could be used to beguile, disarm, delay, obfuscate issues rather than to make progress, that without that openness, one would not be able to take advantage of a sincere effort, as you indicated, to ameliorate the situation.

While I do not think we have to be apologists for Cuba and the way it has behaved, not only internally but in the region and indeed in the world at large, I think the working group felt that we should be alert for any opportunity which through dialog might be able to alleviate the situation.

Senator PELL. Mr. Greene.

Mr. GREENE. I think, Senator Pell, the statement in our report accurately reflects our views on the matter. That is, we do, I hope, as a nation stand ready to talk to the Cubans at any time. I guess some of us would be somewhat skeptical at the moment as to where that would lead us, but keeping the doors open is perhaps a mark of wisdom.

Senator PELL. I was struck with page 7 at your testimony, where you said,

The United States should make increasingly strong efforts to promote the possibility of inducing the Cubans to cooperate seriously with the peaceful solutions of conflicts in Central America and Southern Africa. If significant progress can be made in these issues, the United States should reconsider its policies toward Cuba.

So I am glad you believe in keeping an open door, at least, on this, and I know that I intend to keep pressing this view.

On page 19 of your report, you mentioned the Contras, and you say that there should be a presumption against paramilitary covert action, especially when vital interests are not at stake, but its appropriateness can only be decided upon by a case-to-case basis. This leads me to two questions.

One, and I address this particularly to General Scowcroft, whose breadth of knowledge on strategy I respect. Are these little countries in Central America what we call of vital strategic interest to the United States?

General SCOWCROFT. Senator, we avoided in this report using the term "vital." Vital tends to constrict one's freedom of action in a number of areas, as you know only too well. I think we instead said that the importance, the historic importance and relationship of these countries to the United States was growing, where in the past it had been really strategic primarily in the context of security for the Panama Canal and so on, that it was broadening both in the range of security interests and in economic and other ways.

If I may just comment on the presumption against covert action, I dissented from that view in the report on the grounds that I think there should not be a presumption for or against any of the instruments available to the United States. Instead, each should be examined on its merits, and a conclusion should be made based on the circumstances, and based on the advantages and disadvantages of each course of action, but I think we should not on an a priori basis eliminate any thought of any instrument in between diplomatic action and the use of U.S. forces.

I think that would be a mistake without examining the situation. Senator PELL. Mr. Greene, would you have any comment?

Mr. GREENE. I do not think I have anything to add to that, Senator Pell.

Senator PELL. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Pell.

Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

I will be very brief, because time does get away from us. You have some very interesting ideas, I think, that have been challenging and are certainly important to an understanding of this issue. I would like to ask a couple of things.

I think, General Scowcroft, you mentioned the need to get on with supplying assistance to be successful, and I think you said this, too, Mr. Greene. There had to be a reduction in tension, I think were your words, in the area. What we are frequently accused of up here is nickel and diming something. I think it concerns us that we do get into that role. Frequently that is the way that we can express some views on policy itself, but it is troubling, and to analyze what is the right amount, and perhaps most importantly, how it can be effectively used.

Recently there have been charges of abuse by the Central Bank in El Salvador. We have seen a number of our aid efforts there that we would have to question whether they have been wisely carried through. What do you recommend as a way of monitoring the use of the moneys there? How involved should we be in that monitoring? And did you study the past aid that we have given over the last several years and make any conclusions from the uses that have already been made? Perhaps I missed it and it was in your statement.

General SCOWCROFT. Why do you not start that?

Mr. GREENE. No; I do not think it was dealt with directly, Senator Kassebaum. I said earlier that I think if I had policy responsibility I would want to proceed cautiously. The institutional structure, what there was prior to the outbreak of war in the area, was not very sophisticated to begin with.

Today one could presume that it has even less capacity, but we do have extant in the world a host of institutions that could be useful to us in the pursuit of these objectives. One could list them: The World Bank, the Inter-American Development Bank, there were private development banks in every one of the countries involved who were of modest size but had some technical capacity.

U.S. commercial banks have a substantial amount of experience and capacity in this area, so I do not believe that we are totally bereft of the capacity to monitor funds and aid as it flows into the country in some sort of intelligent way.

I would think we simply have to guard against that at the first outbreak of knowledge that U.S. food is being sold in the Salvadoran markets for money, when it should not be, that we pack our bags and go home because that is going to happen. It is going to happen again. And if we launch into this venture, as we hope we will, we are simply going to have to have the staying power to overlook and recognize that those kinds of things are going to happen. But I do not think that we are bereft in this city of the technical capacity to set up a monitoring apparatus to make sure U.S. taxpayers' money does not get wasted.

Senator KASSEBAUM. Through institutional channels that already exist? Is that what you are suggesting?

Mr. GREENE. I would think you are going to have to ask the Inter-American Development Bank or the World Bank or U.S. commercial banks to assist in this procedure by sending people there and doing

what would need to be done. It would not look like an insuperable task.

**Senator KASSEBAUM.** In the Kissinger Commission report, as I am sure you are aware, they recommend and in testimony yesterday indicated they feel strongly about—certainly some of the members do—the CADÓ [Central American Development Organization] as a monitoring mechanism. Will this just be another mechanism? Would it be better to improve and devise something through existing channels, or might this serve a purpose?

**Mr. GREENE.** Senator Kassebaum, there are a large number of very able people who worked on the Kissinger Commission report, and they may have had available to them institutional legal reasons why the establishment of a new institution would be necessary.

I do not have anything against it, except a kind of *prima facie* case against establishing one more institution, but I could be persuaded that the ones I have cited could be more effectively used in this way. I think we are talking about the same core of experienced lending and developmental officers in any event.

**Senator KASSEBAUM.** Another question. You mentioned needing to strengthen the IMF. If we, as has been recommended, I think, give \$2 billion just to help write off indebtedness, are we weakening IMF to a certain extent, which has been, of course, one means of effectively setting up some guidelines that have been very harsh in many instances, that many would question whether they should have been so harsh in their determination at any given time.

Do you see this as any means of undermining IMF, if we just tend to say we will forgive those loans? How will Brazil regard that, for instance?

**Mr. GREENE.** I myself have not addressed the question of forgiving the loans.

**Senator KASSEBAUM.** No, but you know it is a recommendation.

**Mr. GREENE.** Yes. And I guess as a president, as an ex-commercial banker, I would have to say I would oppose that. The Atlantic Council report recognizes that some substantial changes in the repayment mechanisms, schedules, and prices will have to be made.

But I make a distinction, perhaps erroneously, in my own mind between the debt problem on the one hand, which I think must be resolved, and emergency economic assistance to countries in extremis on the other, which at least in part I understand the Kissinger Commission to be dealing with, over and above and beyond all normal commercial channels and having really little or nothing to do with a rational, logical settlement of the debt problem.

**Senator KASSEBAUM.** General Scowcroft, I would like to ask—you suggested that a coordinating mechanism be established to facilitate the military efforts of protection, more or less, in the area; that some members of NATO together with appropriate regional powers should be encouraged to extend military assistance in the area.

Could you elaborate on that a little bit? Do you think this would be a good approach? Our NATO allies have not been very supportive of some of our actions in the region. I know that I myself had wondered if OAS could pull together enough strength to be supportive there with some sort of regional force.

Does it have any validity? I think it is a good idea.

**General SCOWCROFT.** Whether it would in fact work is a difficult question. I think our thought was that, to the extent that we can involve our friends and allies in the region and not have it purely a bilateral American effort, would be very helpful.

And one of the ways, not only in the interest of intelligence itself, but one of the ways we feel that the Europeans especially can be brought to understand more about the real situation is to become involved in a cooperative intelligence effort; and that could, aside from the military benefits, be a psychological improvement in the attitude of the Europeans toward what we are doing in the area.

**Senator KASSEBAUM.** I think it is a very interesting idea and certainly worthy of pursuit. Do you lend support to the Contadora process as being one that is ever going to be successful?

**General SCOWCROFT.** Yes, I think we do, yes, definitely.

**Senator KASSEBAUM.** Thank you very much. I thank you for a particularly interesting presentation on the part of the group.

**General SCOWCROFT.** Thank you.

**The CHAIRMAN.** Senator Boschwitz.

**Senator BOSCHWITZ.** I have no questions, Mr. Chairman. I agree with the views of this panel and I would like to listen to the views of the next panel.

**The CHAIRMAN.** I have one question that I wanted to put to Mr. Greene, because of your former banking and business background. What are the minimal conditions that you would consider necessary to attract loans and investment capital back to Central America?

Do you believe that an aid program started in the midst of continuing civil conflict could really succeed?

**Mr. GREENE.** Senator, I think the circumstances in the immediate future under which either private loan funds or investments will go into the area ex the guarantee sorts of provisions envisaged in the Kissinger Commission report, it does not take anybody with very much business experience to understand that not very many businessmen now or in the immediate future are going to be lured to risk money in that part of the world.

I would hold out little or no hope for that sort of assistance, unless you are operating under a U.S. Government guarantee or an Eximbank guarantee of that sort.

**The CHAIRMAN.** It is not much different than Beirut. You are not likely to see major companies reestablish their headquarters in Beirut today until one stabilizes the military situation. It is very difficult to conceive of or carry on with any kind of normalized operation economically.

We want to thank you all very much for your presence today. We would be very happy to have you stay and listen to the next panel, but we would leave that entirely to you.

**Senator Dodd.** Mr. Chairman, let me apologize for getting here a little late. I certainly will discuss with my colleagues what was said.

**The CHAIRMAN.** Senator Dodd.

**Senator Dodd.** If I have any questions, General, let me call you.

**General SCOWCROFT.** Certainly.

**Senator Dodd.** Thank you.

**The CHAIRMAN.** I did not realize you had come in. Are you sure you do not have any questions for this panel?

Senator DODD. Not for this panel at this time. But if I could take 30 seconds, there is a point I would like to raise with you.

Yesterday the House passed, by voice vote, the certification bill. I have introduced identical legislation which reauthorizes exactly what we have done before in this body. It was supported unanimously last fall, and this committee has spent hours discussing the legislation a number of times.

The Kissinger Commission, including the chairman of the Commission, endorsed a legislative certification, not just the approach the administration has been following.

In light of those two actions, and in light of the reaction this body has had in the past, I would like to request, Mr. Chairman, that as soon as possible we set a time certain to vote. I do not think we have to go through a hearing—we have all been through this so many times. But there are already a substantial number of cosponsors of this legislation on both sides of the aisle, and I would like to see us be able to move it to the floor.

Hopefully, we might deal with it as the House did or as this body did last fall—on a voice vote—and send the matter along. It seems as though everybody is four-square on the notion that this makes sense. There are obviously some concerns people have, and I'd be less than candid to suggest otherwise. But it seems to me we ought to attempt to move it forward.

The House has acted, the Kissinger Commission has made its recommendation, and certainly it seems to me that we ought to do something in this regard.

The CHAIRMAN. Senator Dodd, I have considered this matter carefully. As you know, I have been a staunch supporter of certification.

Senator DODD. I know you have.

The CHAIRMAN. I agree with the Kissinger Commission position on this. It has been our intention to mark this up in the omnibus bill. We have set aside a period of 4 days to mark up that legislation and we have a time certain, April 2, for its consideration on the floor. In fact, we have the entire week set aside on the floor for consideration of that. So it would be a part of the total overall package.

Senator DODD. The only difficulty with that, Mr. Chairman, is it seems quite clear that the House is not going to act on the overall package at all. Weeks are going to go by. Here is a recommendation that everybody agrees with, that I think is vitally important to make a statement on. It would not jeopardize the consideration of the overall package to take that specific piece of it and deal with it in what should be a most expeditious way.

Given the fact that we have been through all this, to wait until April or to go through a long markup and then try to get it to the floor—which is very questionable—to let another 6, 7, or 8 months go by without acting, I think, could be tragic in its implications.

Clearly, the administration wants to make the point that we are serious about this issue. Secretary of State Shultz, Ambassador Fred Ikle, the Vice President of the United States, have all been making the point that we have incorporated in the certification bill, and everyone seems to agree that we ought to have something on the books.

To wait until this larger package moves along, which may be never, I think is to virtually kill certification and not have it move. I do not

see any reason why we cannot do what we just did and did last fall, which the House did yesterday, and what the Kissinger Commission recommends. I do not know why we want to wait for weeks on end. We might just save a few lives by doing it, that is the point.

SENATOR BOSCHWITZ. Mr. Chairman, let me submit to my friend and colleague from Connecticut that perhaps his approach will do exactly what he fears, and that is to kill the whole idea of certification.

Let me agree with you, Mr. Chairman, that your approach of including it with a broader piece of legislation makes more sense. Quite clearly, and as I remarked yesterday after the Senator from Connecticut left, the certification bill that was vetoed was only that, a certification bill. The Executive, be it Republican or Democrat, has always rejected the idea that we can set certain parameters in foreign policy. That is something in his realm and in which he does not want to be constrained.

However, we have been successful in making requirements of the type that the Senator from Connecticut seeks, and that I also support, when we combine it together with appropriations or combine it with a broader piece of legislation as you, Mr. Chairman, suggest.

I respectfully state that, in the event a piece of certification legislation comes before us as only that, that there may indeed be another veto. Perhaps now in an election year there may not be, but nevertheless it would be more of a challenge to the prerogative of the Executive than it would be a test of whether or not the Executive is interested in certification.

So I think that in order to achieve the ends that the Senator from Connecticut seeks, and that, as he correctly points out, Dr. Kissinger and others who have been so active in the report on Central America also seek, and that I know that you, Mr. Chairman, are anxious to obtain, that we should combine it. There will be adequate opportunity to do it by amendment, either on the floor or otherwise.

And I do not think that the Senator from Connecticut should despair that all opportunity will be lost if it is not produced as an individual bill. I would support you, Mr. Chairman, in including it.

Nobody is more concerned, and I have moved my position, with respect to Central America and aid to El Salvador. I have been more, rather than less, supportive of the administration and have moved away from that somewhat on the basis of the activities of the death squads in Central America. No one is more intent in seeing that those activities either disappear or be mitigated to all possible extent.

But I want to do it in a way that is going to work, and not embarrass this President and not further create lines of demarcation in foreign policy between ourselves and the President. I think that the failure of bipartisan foreign policy is being illustrated now in the Middle East, and I do not think we should start all that over again with respect to Central America.

THE CHAIRMAN. Excuse me. I do not want to hold our panel up for this internal matter.

We thank you again and appreciate your appearance very much. We will certainly leave the record open so that we can submit questions to you for the record from members who could not be with us this morning.

The Chair will call the second panel forward, so that we can go ahead. And I do recognize Senator Dodd.

Senator Dodd. Let me say that we are approaching this legislation.

The CHAIRMAN. May we have some quiet in the room, so that Senator Dodd could continue.

Senator Dodd. Mr. Chairman, I would point out, with all due respect to my friend from Minnesota, that we have almost 40 cosponsors for this piece of legislation. I have always been a believer that you come through the normal process, and bills with far fewer cosponsors have the opportunity for consideration before committee.

As a member of the committee, I do not believe the best way to do these things is to go to the floor for action directly, but to come through the committee process. I know what the administration wants. They want to include it in their own package and they want to avoid having this issue raised.

The President pocket-vetoed the bill despite the overwhelming support for this legislation last winter, and that is not our fault; that is his. Everyone else has made the recommendation that this be supported. I do not want to go directly to the floor with it, although I will.

But it seems to me we ought to go through the normal process, which is that when a piece of legislation has this much support and these many cosponsors, it deserves consideration. We have debated it, as I said, on numerous occasions. The other body has taken action. We have all the support, I think, that needs to be demonstrated. And we could, I think, make a significant difference.

So I make the request that we consider this bill and try to send it to the floor for consideration. And I would like to ask that this be done independently of the whole package, which I think is going to take a very long time indeed to reach here and get through.

I do not think anyone who realistically looks at the Congress this year anticipates that a comprehensive package—like the one we will deal with on the Kissinger Commission report—is going to get very far in this Congress. I think that is what most people conclude about it.

In the meantime, we lose the opportunity to deal with certification. So I will make the request. Obviously it is the chairman's call and that of the committee. But I did not want this morning to go by without making this request of the committee.

The CHAIRMAN. I certainly will give consideration to it and talk with you about it, Senator Dodd. I can say this much: My own information is if the Senate reported out separately a certification bill, there will be an immediate request for a hold on it, and I think in view of the fact that the legislative program has been laid out now for the next several months ahead, so long as there is a controversial item subject to both holds, and, on the floor, filibuster action, we would get no place with the leadership in trying to schedule it.

Senator Dodd. I understand that.

The CHAIRMAN. And I think it would do quite a bit of time right here, whereas as a part of the omnibus foreign aid bill itself, we know we are guaranteed scheduling on the floor. No holds will be accepted on the overall bill. So let us both, you and I talk about this. You know how much I support the concept.

Senator Dodd. Yes, I know you do. And I believe if the committee would discharge its responsibility—I realize people can put a hold on

the floor, but I think if this committee even were to take a position—it would assist in this effort.

The CHAIRMAN. Senator Kassebaum, do you want to be heard on this?

Senator KASSEBAUM. I spoke to this point yesterday, Mr. Chairman, and I certainly concur with your position. It seems to me to fit in with the package. Whether we do it in the next couple of weeks or next month, I do not really agree—and I am an original coauthor with Senator Dodd of this—that it is going to save lives.

If so, I think we would be doing it tomorrow, if not this afternoon. We would wish that it would. But I think whether indeed within the next couple of months we cut off aid depends on our receipt of a certification document is really not being realistic about how things work.

So I would rather consider this as part of the package, which indeed I think it logically is. It logically fits there.

Senator DODD. Let me say, if I may, in all friendliness—

The CHAIRMAN. This will be the last comment.

Senator BOSCHWITZ. But Mr. Chairman, I may want to make a brief comment.

Senator Dodd. If we are going to err on one side or another, why not err on the side of trying to save a few lives. It seems quite clear to me that since September 30, when this bill went out of business, we have seen a marked increase in violence in El Salvador. The administration recognizes that, as we have heard from the Vice President and Fred Ikle and others who went down to do something about it.

We do not know specifically how many lives were saved, but without it we saw violence increase. That was clear. I cannot say for certain how many lives it will save. But what harm can it do to have this legislation on the books if it will save a few? If that is the case, I do not think it is a mistake at all.

Senator BOSCHWITZ. If I believed, Mr. Chairman, that it would be on the books, it would be a different matter. I respectfully say that we do everything we possibly can not to politicize the business of Central America. It already has been politicized to some degree.

We have seen what has happened when we in this committee and in this Congress politicize foreign policy issues. We have seen that in Lebanon, where it leads to some degree—and I can just speculate on to what degree the affairs in Lebanon have been the result of the equivocation and lack of resolve of this body and other people here on Capitol Hill and in Washington.

I would hope that we would not politicize Central America. I think we have before us a document that has come forward from a bipartisan Commission that has some real promise. I must tell you, I have never visited Latin America. I am not an expert on Latin America. I have read the report almost in its entirety. I will try to do my best to seek the aid that is necessary to bring stability to that area.

But I hope that we will not participate in a partisan approach to the matter here that may effectively preclude our achieving the ends that we will desire.

The CHAIRMAN. Thank you very much. We will take this up as a separate issue.

Today our second panel consists of six witnesses: Dr. Richard Feinberg, vice president of the Overseas Development Council, who

has written on the economic issues in Latin America and is the editor of a book on the Central America crisis;

Dr. Melvin Krauss, professor of economics at New York University and author of "Development Without Aid: Growth, Poverty and Government";

Mr. Robert Leiken, associate of the Carnegie Endowment for International Peace and editor of "Central America: Anatomy of Conflict";

Mr. Russell Marks, a former businessman himself and now president of the Americas Society, which has recently conducted a detailed survey of the U.S. investment in Central America;

The Honorable Ambler H. Moss, Jr., former U.S. Ambassador to Panama and editor of "The Miami Report" on recommendations for U.S. policy toward Latin America and the Caribbean;

Mr. Howard Phillips, national director of the Conservative Caucus.

The witnesses have been asked if they could make their statements approximately 5 minutes in length. After all statements have been made, the members will address questions to the panel.

Senator Kassebaum, if we could take up the witnesses in the order in which I have listed them, I have to step out for just a few moments with a group of pork producers from Illinois who have been waiting long and patiently.

Senator KASSEBAUM [presiding]. I met with the Kansas pork producers yesterday.

Mr. Feinberg, please proceed.

**STATEMENT OF RICHARD E. FEINBERG, VICE PRESIDENT,  
OVERSEAS DEVELOPMENT COUNCIL, WASHINGTON, D.C.**

Mr. FEINBERG. Mr. Chairman, I am honored by the invitation of the committee for me to provide my reactions to the Kissinger Commission's comprehensive report. I very much welcome such a comprehensive and thoughtful study. The report advances four themes of tremendous importance for U.S. policy in Central America and the Third World generally.

First, the report explicitly locates the initial causes of the current strife in political repression and economic injustice. The report rejects the notion that the discontent is created in Moscow or Havana, even if those countries may seek to capitalize on political unrest.

Second, the Soviet Union is portrayed as employing a policy of gradualism and ambiguity, of avoiding risks and expenses in the region outside of Cuba. This is a welcome corrective to the common image of a Soviet Union that is reckless and everywhere confrontational and ever willing to expend vast resources in pursuit of world domination.

Third, the idea that indigenous reform, even indigenous revolution, is not a security threat to the United States is repeated at least five times in the report. The Commission challenges the conventional wisdom that holds that revolutionary governments in the Third World necessarily pose a grave threat to the security and prosperity of the United States.

While the Commissioners, like myself, prefer liberal democratic systems, the report seems to argue that a broad spectrum of regimes

can be reasonably congruent with American economic and security interests.

And fourth, the Commission stresses the potential contribution that economic assistance can make to U.S. foreign policy and to economic development in Central America.

A foreign policy based on these four perspectives, regarding the indigenous causes of unrest, the limited nature of Soviet interests, the acceptability of revolutionary change, and the value of economic instruments for U.S. foreign policy, such a foreign policy would rest on firm foundations.

However, other areas of the report are less convincing in my opinion, and let me mention four.

First, the Commission implies that the United States has the power to restructure Central American societies to conform to an ambitious set of objectives. U.S. objectives are defined expansively and inclusively. Too often the report fails to set priorities among competing and sometimes contradictory objectives.

It ducks the tough choices that are the essence of foreign policy. In doing so, the Commission achieves its consensus, but has laid out a series of objectives that are probably beyond our reach.

In contrast, the Atlantic Council report that General Scowcroft and Mr. Greene have just discussed before you, and of which I myself was a member, that report noted that U.S. influence in the Caribbean Basin has declined in recent decades, and they gave this explanation for that decline.

Governments are better able to interpret and assert their own self-interests. The emergence of regional actors, Mexico, Venezuela, Cuba, has created centers of power independent of the United States. Despite continuing influence, the United States' ability to assure the survival of friendly governments or otherwise to shape the internal politics of states is increasingly limited.

Overlooking the limits of our influence, the Kissinger Commission has underplayed the importance of working with other states. While the report applauds the Contadora effort, its basic thrust is a go-it-alone unilateralism.

Second, the report's threat assessments tend to concentrate on worst case scenarios that are unlikely and that can be prevented with a reasonably sensible diplomacy. The report raises the specter of offensive Soviet military bases on the isthmus, yet no evidence is presented that either the Soviet Union or Central American governments are considering such a move.

In any case, given U.S. military predominance in the region, any Soviet facilities in the Basin would be extremely vulnerable to rapid and decisive strikes by U.S. Forces. Moreover, an intelligent diplomacy on our part should be able to reduce the likelihood of such threats to near zero.

The Commission also warns that U.S. credibility is at stake in Central America, but credibility to accomplish what? We should not confuse legitimate U.S. commitment to defend NATO allies against a Soviet invasion with our ability to sustain a government in El Salvador that is facing indigenous rebellion.

Third, the Commission fails to construct a strategy for dealing with leftist regimes. Again, the Atlantic Council paper, in contrast, provides several guidelines for how we ought to, in fact, deal with radical nationalist regimes, and I quote,

U.S. policy should strive to keep radical regimes of the left or right integrated into the Western economic system, and separate from the Soviet strategic network. A policy which encourages the settlement of disputes between nations as well as internecine national strife, and which helps nations feel secure, will reduce Soviet opportunities. A U.S. diplomacy which seeks to offer leftists an alternative to a pro-Cuban, pro-Soviet alignment would be another element in a positive strategy to contain Cuban influence.

And fourth, the report fails to present new proposals for resolving the key dilemmas plaguing U.S. policy in El Salvador, Guatemala, and Nicaragua. It may be that a continuation of existing policies supported by higher levels of resources might bring victory in El Salvador, reform in Guatemala, and capitulation in Nicaragua, but a close analysis of the internal dynamics in each country suggests differently.

Mr. Chairman, my paper notes 10 additional inconsistencies or ambiguities in the Kissinger report. Let me just briefly mention three of those here.

First, militarization of Central American societies is a danger, the report says, but U.S. military assistance should be sharply increased.

Second, the emphasis on preserving our moral authority in the eyes of other nations stands in contrast to the endorsement by the majorities of the Commission of paramilitary covert action.

Third, although Soviet objectives are described as diversionary and intended to drive a wedge between us and our allies, the Commission proposes expensive and ambitious policies which many of our friends abroad oppose, and I quote from the report. "Soviet objectives have been to divert U.S. attention and resources from other parts of the world that are of greater importance to Moscow, and to complicate our relations with our Western European allies," yet many of the Commission's recommendations would seem to fall into this trap.

Finally, Mr. Chairman, I want to praise the report's superb analysis of Central America's social and economic problems and its many constructive and innovative ideas for addressing these problems. However, in discussing its financial proposals, the report underlines an important caveat:

Without a considerable reduction in the levels of violence, efforts to revive the regional economy will fail, and capital flight will continue, but the political strategies advocated for El Salvador and Nicaragua are unlikely to bring that necessary peace.

Americans who are generally supportive of economic assistance face a dilemma. On the one hand they see economic aid as potentially contributing to Central American economic development and long-term political stability. On the other hand, they fear that aid poured into a boiling cauldron will quickly evaporate. Soon newspaper accounts in the United States would be full of stories about how U.S. aid ended up in Miami bank accounts, or was diverted by corrupt officials into the hands of private merchants or even the guerrillas.

The danger is that, as occurred during the Vietnam war, all foreign assistance programs will be tarnished in the eyes of the American public. On balance, I conclude that the friends of foreign assistance should be extremely wary of disbursing large-scale aid in the current political climate in Central America.

Let me end here. I would be glad to expand on my comments later.  
[Mr. Feinberg's prepared statement follows:]

PREPARED STATEMENT OF RICHARD E. FEINBERG  
VICE PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL\*

before the  
Committee on Foreign Relations  
United States Senate

Washington, D.C.

February 8, 1984

ANALYSIS OF THE REPORT OF THE NATIONAL BIPARTISAN  
COMMISSION ON CENTRAL AMERICA, CHAIRED BY HENRY KISSINGER

\*The views expressed here are the author's and should not be attributed to other staff members, officers, or directors of the Overseas Development Council.

Mr. Chairman, I am honored by your invitation to provide your Committee with my reactions to the Report of the National Bipartisan Commission on Central America, chaired by Henry Kissinger. The Report is an historic document which deserves careful scrutiny. It is nothing less than a full-blown analysis--moving from general concepts to detailed tactical proposals --of United States policy in a region of the Third World gripped by political strife and economic contraction. I welcome such a comprehensive and thoughtful document on a subject of ever-increasing importance to U.S. foreign policy. I commend the Reagan administration for focusing the attention of the distinguished Commissioners on the political and economic problems of developing countries. And I commend the Commission for assembling an outstanding group of Counsellors and staff, and for soliciting the opinions of a large number of individuals during many days of testimony.

Like most Americans, I agree with portions of the Report and differ with others. It is not surprising that a document with so many co-authors, and written in such a short timeframe, would contain many inconsistencies and lacunae. Let me first discuss what I find to be some of the Report's most promising conceptual contributions--and some of its conceptual limitations. I will then outline what I consider to be among the Report's most significant internal contradictions. Finally, I will discuss the Report's superb economic proposals, while offering some amendments of my own.

#### Conceptual Advances

The Report addresses several conceptual issues of tremendous importance for U.S. policy in Central America and the Third World more generally. The Report analyzes the fundamental causes of the Central American crisis;

Soviet objectives in Central America; the implications of revolutionary change for the United States; and the role of U.S. international economic policy. In each of these four areas, the Report makes a valuable contribution.

1) The Report explicitly locates the initial causes of the current strife in political repression and economic injustice--not just in external intervention, nor in backwardness or poverty, per se. Far from being stagnant "banana republics," Central American economies produced solid growth rates from 1950 until the mid-1970s--but the fruits of this growth were very unequally distributed. "Growth was strong, though not nearly enough was done to close the gap between rich and poor, the production of longstanding economic social and political structures." (pp. 9-10) Nor did economic growth produce more liberal politics. On the contrary, during the 1970s "a period of closed political systems, repression and intransigence began in Guatemala, Nicaragua and El Salvador." (p. 21) If anything, economic growth led to increased repression, as the Report notes, since the resistance of the dominant elites increased in the face of rising demands from the growing middle class and urban and rural workers for political participation and economic equity. "In short, the economic growth of the '60s and '70s did not resolve the region's underlying social problems." (p. 24)

The Report rejects the notion that the discontent is created in Havana or Moscow--even if they may seek to capitalize on political unrest and arm insurgents. The Report correctly implies that the Soviet Union and Cuba were rather skeptical and unsupportive of armed insurgency in the pre-1978 period--the years when the left was gaining momentum in Central America. To the extent that the crisis originates in external factors, destabilizing influences emanate from the functioning of the international economy--into

which Central America is tightly integrated--as much as from foreign capitals. The Commission notes that it was the buoyant international economy of the 1950s and 1960s which allowed Central America to grow--an economic growth that destabilized the ancien regimes--just as the shocks of the 1970s and early '80s (the oil price hikes, fluctuating commodity prices, high interest rates, and the global recession) have sent the Central American economies reeling and have disappointed those whose expectations had been heightened during the earlier boom years. In fact, the successes and failures of U.S. fiscal and monetary policies have had at least as much impact on Central American politics as Fidel Castro or the Communist Party of the Soviet Union.

2) The Soviet Union is portrayed as employing a policy of "gradualism" and "ambiguity," of avoiding risks and expenses in the region (outside of Cuba). (p. 122) This is a welcome corrective to the common image of a Soviet Union that is reckless and everywhere confrontational, sure of its tactics and strategy, and willing to expend vast resources in pursuit of world domination. Nor does it coincide with the image of policymakers in the Kremlin working from a master plan to seize Central America, capable of picking off countries according to their prepared "hit list."<sup>1</sup>

We do not, of course, know for certain what Soviet objectives are in Central America. But the Commission's estimate seems plausible: "Soviet objectives...have been to end unchallenged U.S. preeminence within the hemisphere and possibly to see other 'Cubas' established, to divert U.S. attention and resources from other parts of the world that are of greater

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<sup>1</sup>For a fuller discussion of Soviet attitudes toward Central America, see Richard E. Feinberg, "Central America: The View from Moscow," The Washington Quarterly, Spring, 1982.

importance to Moscow, to complicate our relations with our West European allies, and to burnish the Soviet Union's image as a revolutionary state." (p. 122) By noting that other regions of the world are of greater importance to Moscow, the Commission implies--correctly--that Central America has not been a Soviet priority. By remarking that the creation of a "second Cuba" is only a "possible" objective, the Commission quietly takes issue with those who are certain that the Soviets are relentlessly determined to colonize Central America. Rather, the Commission emphasizes other Soviet objectives --which are in fact more sophisticated and harder to counteract.

3) The idea that "indigenous reform, even indigenous revolution, is not a security threat to the United States" is repeated at least five times in the Report. (pp. 4, 12, 15, 84, 107) The Commission challenges the conventional wisdom that holds that revolutionary governments in the Third World necessarily pose a grave threat to the prosperity and the security of the United States. The domestic politics of many revolutionary regimes would not live up to the Report's high standards--nor would most Third World governments. But Mexico is cited by the Commission as a clear example of a regime borne of a revolution that is not a security concern to the United States --despite Mexico's illiberal domestic political structures. (p. 84) If the two fundamental U.S. interests in the Third World--as exemplified by Mexico--are that nations remain independent of the Soviet Union and integrated into the global economy, then many existing Third World governments that are the product of revolution--and that call themselves "radical" and sometimes even "Marxist"--do not necessarily pose a threat. While the Commissioners--like myself--would prefer liberal democratic systems, the Report seems to argue that a broad spectrum of regimes can be reasonably congruent with American economic and security interests. Such a sophisticated view of fundamental

U.S. interests is not novel, but is often lost sight of in the policy debate.<sup>2</sup>

4) The Commission stresses the potential contribution that economic assistance can make to U.S. foreign policy and to economic development and social betterment in Central America. The Report notes that previous external assistance efforts in Central America made a positive difference in earlier decades and can do so again under the proper conditions. In urging a truly massive economic assistance effort--especially in proportion to the size of the region's economies--the Commission affirms its faith in the potential efficacy of foreign assistance to generate higher levels of investment, train a more efficient labor force, induce better economic management, and eventually lay the foundations for more self-sustaining development. Again, this reassertion of faith in the utility of foreign assistance is a welcome antidote to the view that sees foreign aid as essentially welfare handouts which at best serve to raise consumption temporarily and often actually undermine efficient policies. The emphasis on economic assistance as a major tool of U.S. foreign policy is also a welcome corrective to the view that military spending--combined with "free market" economics--provide sufficient instruments for U.S. foreign policy.

A foreign policy based on these perspectives--regarding the indigenous causes of unrest, the nature of Soviet interests, the import of revolutionary change, and the value of economic instruments--would rest on firm foundations. While the Commission was addressing itself to Central America, these perspectives are equally valid for many other regions in the Third World.

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<sup>2</sup>For a more complete discussion, see Richard E. Feinberg, The Intemperate Zone: The Third World Challenge to U.S. Foreign Policy (W.W. Norton, 1983).

Conceptual Weaknesses

Other ideas in the Report are less convincing. Specifically, the Commission implicitly overstates U.S. influence in Central America; tends to exaggerate or obfuscate U.S. interests and the threats they face; fails to present a constructive strategy for coping with leftist movements; and is disappointing in its unwillingness to explore seriously new ideas for resolving the central dilemmas that have been plaguing U.S. policymakers.

1) The Commission implies that the United States has the power to restructure Central American societies to conform to an ambitious set of objectives. U.S. objectives are defined expansively and inclusively: we want competitive electoral systems and more equitable social structures; strong armies and civilian governments; economic growth with redistribution; and nations that are independent, friendly and peaceful. God willing, Central America will attain all these laudable objectives. But this vision of the future is very far from the much darker realities of yesterday and today.

Too often, the Report fails to set priorities among competing and sometimes contradictory objectives. It ducks the tough choices that are the essence of policy. In doing so, the Commissioners achieved consensus, but have laid out a series of objectives that are probably beyond our reach.

Gone are the days when the United States could easily work its will in Central America. Populations are more aware and better organized. Governments and political movements can turn to a wide variety of external sources for support. And nationalism makes it harder for any foreign power to control the region.

The Atlantic Council of the United States recently released a policy paper endorsed by over fifty U.S. experts on foreign policy, Western Interests

and U.S. Policy Options in the Caribbean Basin. The study noted that "U.S. influence in the Caribbean Basin has declined in recent decades" and gave this explanation:

Several factors account for the decline of U.S. influence. Governments are better able to interpret and assert their own self-interests. The emergence of regional actors (Mexico, Venezuela, Cuba) has created centers of power independent of the United States. This permits governments to reach out to Third World economic and political groupings which in turn provide different viewpoints and, to a degree, alternative support mechanisms. The increased activities of external actors (Western Europe, Canada, the Soviet Union) add further sources of power that make it difficult for the U.S. unilaterally to shape events in the region. Despite continuing influence, the United States' ability to assure the survival of friendly governments, or otherwise to shape the internal politics of states, is increasingly limited.<sup>3</sup>

Overlooking these strategic trends, the Kissinger Commission has underplayed the importance of working with other states. While the Report applauds the Contadora effort, its basic thrust is a go-it-alone unilateralism. The Commission apparently concluded that the United States can, largely by itself, bring sufficient power to bear to realize its many objectives. The Atlantic Council's policy paper properly warned: "...failure to take international and domestic constraints into account can lead to overambitious policies, and the inevitable policy corrections leave the appearance of inconsistency and incompetence."<sup>4</sup> The Atlantic Council paper logically urges that the U.S. replace an overly ambitious unilateral diplomacy with a more realistic multilateralism: "Given these constraints on U.S. influence, it makes sense to seek to work closely with other countries who share our fundamental interests,

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<sup>3</sup>The Atlantic Council of the United States, Western Interests and U.S. Policy Options in the Caribbean Basin, October 1983, p. 18. The author served as rapporteur for the study.

<sup>4</sup>Ibid., p. xvii.

including Mexico, Venezuela, Canada, Western Europe, and Japan. Such cooperation may require that the U.S., these, and other friendly states modify some of their policies in order to pursue fundamental goals."

2) The Report's threat assessments tend to concentrate on "worst case" scenarios that are unlikely and that can be prevented with a reasonably sensible diplomacy. The report raises the spectre of offensive Soviet military bases on the isthmus. Yet, no evidence is presented that either the Soviet Union or Central American governments are considering such a move, or why it would be to their net advantage to do so. Any Central American government foolish enough to permit a Soviet base which threatened the United States would immediately expose itself to attack. Any Central American government that actually deployed its own forces to attack U.S. shipping or otherwise to side with the Soviet Union in a global war would face overwhelmingly destructive retaliation; no rational calculation would lead a Central American government to act so suicidally. As for the Soviet Union, it can continue to place its missile-bearing submarines near U.S. shores so long as we adhere to the rules of international law and recognize freedom of the seas. The Soviets know full well that any effort to place land-based, nuclear-tipped missiles in the Caribbean Basin would be an extremely serious provocation--but if they were to seek such a base, Cuba is already available to them. The scenario in which conventional Soviet forces are using Caribbean Basin facilities to interdict U.S. shipping implies a state of hostilities which are global, conventional, and prolonged. Yet, many defense analysts consider the likelihood of such a scenario to be very low. In the event of a full-scale nuclear exchange, Soviet ability to sink oil tankers in the Caribbean would be a small matter. In any case, given U.S. military predominance in

the region, any Soviet facilities in the Basin would be extremely vulnerable to rapid and decisive strikes by U.S. forces.

Obviously, it would be preferable for the United States not to have to cope with such threats. An intelligent diplomacy should be able to reduce their likelihood to near zero. Three agreements between the United States and the Soviet Union (signed in 1962, 1970, 1979) constrain the ability of the Soviets to use Cuba as a forward, offensive base. We can continue to send clear messages to the Soviet Union regarding what we consider unacceptable military activities, and to closely monitor their presence in the Basin. We can do likewise with the governments in Central America, while we negotiate mutual security guarantees with them.

Perhaps out of recognition that the establishment of Soviet offensive military bases in Central America is an unlikely contingency, the Commission said that the creation of a Soviet military presence "is not the sole, or even the major, threat to U.S. interests." (p. 122) What that major threat would be, however, is not clearly defined.<sup>5</sup> Similarly vague is the scenario whereby the United States would have to devote important resources to the defense of our southern border. The Report seems to imply that, if events turn sour in Central America, Mexico would be the next "domino"--that Mexico is vulnerable to revolution and Sovietization. The Report does not, however, make this threat explicit--perhaps because it is so unlikely. Mexico has strong political institutions and a political culture little influenced by trends in a region Mexicans consider backward.

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<sup>5</sup>I am indebted to William LeoGrande for bringing this point to my attention. See his article on the Kissinger Commission Report in the forthcoming edition of World Policy Journal, Vol. 1, No. 2.

The Commission also warns that U.S. credibility is at stake in Central America. But credibility to accomplish what? The Commission does not go as far as President Reagan did in his April 28, 1983 address to a special joint session of Congress when he warned that "If the United States cannot respond to a threat near our own borders, why should Europeans or Asians believe we are seriously concerned about threats to them?" The President confused legitimate U.S. commitments to defend NATO allies against a Soviet invasion with our ability to sustain a government in San Salvador that is facing indigenous rebellion. But the Commission did find that "The erosion of our power to influence events worldwide would flow from the perception that we were unable to influence vital events close to home." (p. 93) Certainly, no one doubts that we can bring some influence to bear in Central America--although we may not be able to control events. Furthermore, the ability of the United States to influence events worldwide--especially in Third World regions undergoing dramatic change--will continue to decline independently of our successes and failures in Central America.

Credibility is highly subjective and can be undermined by self-defeating rhetoric and policy. To avoid undercutting our own credibility, we should neither inflate threats nor magnify Soviet advances, and we should be careful to define objectives that are realistically within our grasp.

3) The Commission fails to construct a strategy for dealing with leftist regimes. While the Report repeatedly emphasizes that the United States can live with revolutions, it does not offer a policy framework for preserving U.S. interests in countries ruled by troublesome revolutionary governments. In discussing Nicaragua, the Report simply lays out a long and demanding list of conditions the Sandinistas must meet under pressure--or else "the use of force, by the United States or others, could become necessary as a last resort." (p. 107)

By comparison, the Atlantic Council paper contains general guidelines for dealing with radical nationalist regimes.

U.S. policy should strive to keep radical regimes of the left or right integrated into the Western economic system and separate from the Soviet strategic network....A U.S. policy that accepts the new assertiveness and nationalism in the Basin can help to reduce the dangers of Soviet inroads. Similarly, a policy which encourages the settlement of disputes between nations, as well as internecine national strife, and which helps nations feel secure will reduce Soviet opportunities....A U.S. diplomacy which accepts genuine nonalignment and self-determination and seeks to offer leftists an alternative to a pro-Cuban, pro-Soviet alignment would be another element in a positive strategy to contain Cuban influence. (pp. xvii, 24-25)

The Atlantic paper notes that time and patience may be required for a policy of moderation--that mixes pressures and incentives--to bear fruit.

However, the majority of Kissinger Commission members supported a continuation of covert assistance to the Nicaraguan insurgents. The Atlantic Council paper warns:

A policy of confrontation will often fail to modify regime behavior in the desired direction, instead driving the regime further into a shell of distrust and hostility....Paramilitary covert action in Latin America tends to become public and thus counter-productive--dividing Americans, discouraging enhanced U.S. participation in the region, and perhaps even escalating the involvement of outside interests. It also violates several international conventions, including the OAS charter. In the Caribbean Basin, paramilitary covert action is especially likely to arouse nationalist sentiments against the United States and around the regime and to cause other nations to distance themselves from the U.S. (p. 37)

Commissioner Carlos Diaz-Alejandro indicated similar reservations in his "note" to the Kissinger Report.

Many Third World nations that receive U.S. security assistance could not meet the conditions laid down by the Commission for Nicaragua. If we are to construct a policy that does not require the massive application of U.S. force, we will have to set priorities among our objectives. I would suggest

that--as in our dealings with most nations of the world--we give priority to affecting Nicaragua's international behavior. We then need to construct a more subtle and measured mix of incentives to alter Nicaragua's international alignment.

4) The Report fails to present new proposals for resolving the key dilemmas plaguing U.S. policy in El Salvador, Guatemala, and Nicaragua. Stated simply, the Report generally endorses a continuation of the existing policy aimed at liquidating rather than negotiating with the insurgents in El Salvador, albeit with U.S. aid "strictly" conditioned on human rights improvement. Commission proposals for a more "enlightened" counter-insurgency war simply echo what have been official U.S. intentions for the last four years. The situation in Guatemala is admittedly difficult, but it is nevertheless disappointing that the Commission suggests no new U.S. strategy beyond the withholding of military assistance until progress is made on human rights. In Nicaragua, the majority of Commissioners endorse the current policy of pressures and covert action, although the Report also urges negotiations to test Nicaragua's willingness to accept a very demanding set of conditions.

It may be that a continuation of existing policies--supported by the higher level of recommended resources--might bring victory in El Salvador, reform in Guatemala, and capitulation in Nicaragua. But a close analysis of the internal dynamics in each country suggests differently. The Salvadoran army suffers from poor morale and leadership and from being in the service of a narrowly-based and faction-ridden government, as much as from lack of modern equipment. The Guatemalan military has demonstrated its ability to prevail without U.S. aid. And while the Sandinistas may be willing to

compromise on security issues, they seem determined and able to maintain their hold on political power. New policies--not just more resources--are required.

. These conceptual weaknesses dilute the impact of the Report's conceptual strengths. If the Commission had more carefully worked through the implications of its conceptual insights, it would have penned a more consistent document. If the United States can live with revolutions whose causes are essentially indigenous, and if Soviet objectives in Central America are probably limited, then a more modest threat assessment and a more constructive strategy for dealing with revolutionary governments ought to have been in order. The Commission's solid analysis of the origins of the crisis--located in the attitudes and formations of local elites and structures and in the international economy--should have led the Commission to question whether the United States--even with more resources--can control events in Central America. The finding that the Soviets are behaving cautiously and tightfistedly, and that economic aid can be an important foreign policy tool, should have warranted greater confidence in a U.S. diplomacy built around economic incentives and regional security accords. Finally, the Report is frequently if mutedly critical of the effectiveness of current policy. Rather than generally recommending an intensification of current policy, the Commission ought to have applied its conceptual insights to devising new strategies.

#### Specific Inconsistencies

Given the Report's conceptual contradictions, it is not surprising that it contains inconsistencies or ambiguities on specific issues, ranging from the conditions to be placed on military and economic aid, to assessments regarding the balance of forces in El Salvador and the possibilities of

reaching an entente with Nicaragua, to how best to respond to the Soviet threat. Ten of the more significant inconsistencies follow.

1) Militarization of Central American societies is a danger, but U.S. military aid should be sharply increased. "...the threat of militarization hangs over the region. Were this to happen, it could further warp Central America's societies and shut off the possibilities for internal and external accommodations." (p. 33) At the same time, the Report recommends increasing the size of the Salvadoran armed forces--already expanded fourfold with U.S. aid--to nearly 100,000 soldiers. "Modern" counter-insurgency and "civic action" programs are to provide a shield for democracy, even if the application of these same techniques in Guatemala has admittedly been accompanied by the accession of "extremely repressive regimes." (p. 22)

2) Increased military aid is urgent, but its provision should be contingent upon political reforms. "To be effective, U.S. military assistance programs require greater continuity and predictability." (p. 102) Yet, military aid to El Salvador should be contingent upon "demonstrated progress" toward a demanding list of human rights, judicial and political reforms, conditions to be "seriously enforced." (p. 104) Three Commissioners noted this inconsistency and urged that the provision of military aid be given primacy.

3) Demanding lists for reforms are coupled with more modest statements about the probable pace of change. "...we have stressed the need to make American development assistance strictly conditional on rapid progress towards democratic pluralism and respect for human rights, as well as economic performance." (p. 103) However, "...we cannot expect democracy and pluralism to bloom overnight." (p. 118)

4) Reform is often equated with elections, whose value is admittedly relative. Elections are repeatedly a key criteria for judging a regime, even though historically "...governments had presidential and electoral systems resembling those of the United States. But the substance was very different."

(p. 18) "To be sure, elections do not solve a nation's problems. They can be the beginning, but cannot be the end, of political development." (p. 111)

5) Profound, "structural" reforms are necessary, but must come from the governments in power. Having recognized the need for major political, social and economic reforms, including the redistribution of income and wealth, the Report nevertheless recognizes that "For all these goals, the U.S. Government must rely on the abilities and good faith of the government under attack."

(p. 94) This contradiction may explain the Report's tendency to accept the self-characterization of the Central American governments (except Nicaragua); thus, the Report uncritically notes that the new military regime in Guatemala "has scheduled constituent assembly elections for July of 1984, promised general elections for 1985 and announced that the armed forces will stay out of the political process." (p. 29) Perhaps it was this tension that led Commissioner Strauss to note that "...in my view in many Central American countries the creation and/or preservation of pluralistic government depends as much or more on a basic restructuring of internal political and social institutions as on military assistance. My concern is that this report, while not saying otherwise, might incorrectly be interpreted to the contrary." (p. 131)

6) The emphasis on preserving our moral authority in the eyes of other nations stands in contrast to the endorsement by the majority of Commissioners of paramilitary covert action. The first of our strategic interests in Central America is, "To preserve the moral authority of the United States.

To be perceived by others as a nation that does what is right because it is right is one of this country's principal assets." (p. 37) In contrast, the House of Representatives' Permanent Select Committee on Intelligence concluded: "...continued support for the anti-Sandinista insurgency is contrary to U.S. interests. It strengthens the internal and international support for the Sandinista regime; undermines the reputation of the United States abroad by calling into question U.S. support for the principles of international law; and polarizes this nation in foreign policy." (Report to accompany H.R. 2760, May 13, 1983, p. 10) The Commission also candidly noted that "...we may pay a high political price at home and abroad for assisting the armed forces (in El Salvador)." (p. 101)

7) Assessments of the politico-military balance in El Salvador shift repeatedly from assertive optimism to alarming pessimism. "(The guerrillas) have relatively little popular support in El Salvador, but they can probably continue the war as long as they receive...external support...." (p. 97) On the other hand, "a collapse (of the Salvadoran government) is not inconceivable" (p. 101); and "Were military aid to be cut off (to the Salvadoran government), it would open the way to the triumph of the guerrillas...." (p. 104) The Defense Department is cited as estimating that the injection of \$400 million in military assistance in 1984 and 1985 would break the stalemate and "thereafter assistance levels could be brought down to considerably more modest levels"; however, two paragraphs later, "The training and improvement of the Salvadoran forces to the point where they can effectively wage counter-insurgency will take time." (p. 102) As for the provisioning of the guerrillas, their strength is sometimes laid to external assistance, but "the Salvadoran guerrillas (may) have been able to obtain ample arms within El Salvador." (p. 27)

8) The extremely negative characterizations of the Sandinista government contrast with expectations that negotiations may still be feasible.

The Sandinista government is described as led by "Marxist-Leninists" whose regimes inevitably become "totalitarian. That is their purpose, their nature, their doctrine, and their record." (p. 88) Nicaragua is already a "steppingstone," a "base," for Cuban and Soviet subversion. (pp. 93, 126) At the same time, "Nicaragua's willingness to enter into a general agreement should be thoroughly tested through negotiations and actions....Every avenue should be explored...." (p. 116) Moreover, "Such a settlement would not imply the liquidation of the Sandinista Government or the formal abandonment of its revolutionary ideals...." (p. 116)

9) Expressions of willingness to cooperate with friendly states contrast with the affirmation of policies that such states oppose. The Contadora Group's 21-point plan is praised; yet the Contadora plan would end support for the arming and training of insurgents. In line with the Contadora plan, the Commission's framework for regional security foresees the exclusion of "military forces, bases or advisers of non-Central American countries" (p. 117); yet, "there is little doubt that the projection of U.S. power, in some form, will be required to preserve the interests of the United States." (pp. 106-7) Western Europe is treated suspiciously: "We should seek their political and diplomatic support where this is possible, and their restraint where it is not." (p. 124)

10) Although Soviet objectives are described as diversionary and intended to drive a wedge between us and our allies, the Commission proposes expensive and ambitious policies which many of our friends abroad oppose. "Soviet objectives (have been to)...divert U.S. attention and resources from other parts of the world that are of greater importance to Moscow, to com-

plicate our relations with our Western European allies, and to burnish the Soviet Union's image as a revolutionary state." (p. 122) Many of the Commission's recommendations would seem to fall into this trap.

These contradictions or ambiguities in the Report confirm what the Commission members themselves have recognized: that it will be difficult to build a genuine consensus and to mold a coherent policy toward Central America.

#### The Superb Economic Proposals<sup>6</sup>

These reservations aside, I want to affirm my praise for the Report's superb analysis of Central America's social and economic problems and its many constructive, innovative ideas for addressing them. Most of the basic presumptions of the economic sections are sound:

\*Central America--far from being inherently poor--has a demonstrated capacity to develop. However, having been hard-hit by the global recession, adverse terms of trade, high interest rates, and politically-stimulated capital flight, the region will need substantial economic assistance if it is to recover lost ground and regain momentum.

\*Development strategies should seek to diversify production for external and internal markets. The Central American Common Market--one of the world's most successful integration schemes in the 1960s and early 1970s--should play

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<sup>6</sup>This section draws on Richard E. Feinberg and Robert A. Pastor, "Far From Hopeless: An Economic Program for Post-War Central America," in Central America: Anatomy of Conflict, ed. by Robert S. Leiken (Pergamon Press, 1984); and Pastor and Feinberg, "Redesign Kissinger Economic Proposal," New York Times, op-ed page, January 18, 1984.

a key role in the future. At the same time, some disincentives to exports should be removed in order to increase the international competitiveness of Central American industry and agriculture.

\*Explicit attention must be given to meeting the basic needs of the poor. A more equitable distribution of income and wealth, including land reform, is important to economic, social, and political development.

Furthermore, the Report puts forth numerous interesting and potentially fruitful recommendations. Among the specific ideas that are especially attractive and that deserve further study are: the provision of an emergency credit to the Central American Common Market Fund to facilitate intra-regional trade; the authorization of U.S. membership in the Central American Bank for Economic Integration and the new Inter-American Investment Corporation affiliated with the Inter-American Development Bank; the expansion of U.S. Eximbank guarantees for trade credits; the extension of trade preferences by other nations, and, as recommended in the "note" by Carlos Diaz-Alejandro, the further reduction of U.S. trade barriers to the region's exports; the financing of integrated rural development programs to increase small farmer production for domestic consumption; the provision of a large number of scholarships for middle- and working-class students; and the translation and subsidized publication of books in both directions.

However, in discussing its financial proposals, the Report underlines an important caveat: "Without a considerable reduction in the levels of violence, efforts to revive the regional economy will fail....Capital flight would continue, draining the new financial resources which we propose be made available." (p. 64) The Commission correctly points out that security and development--politics and economics--are a seamless web. But the political strategies advocated for El Salvador and Nicaragua are unlikely to

diffuse the two major foci of conflict in the foreseeable future.

The Report also stresses the importance of regional economic integration, and notes that "Nicaragua remains an essential part of the Central American economy" (p. 42); and that "There is no way to isolate one or two member countries" from the Central American Common Market. (p. 50) Yet, the Report would seem to exclude Nicaragua and perhaps other Central American nations from receiving economic assistance and trade preferences. Some Commission members have made clear on background that they did not expect Nicaragua to receive aid. If the Administration sincerely applied all the conditions recommended by the Commission before aid could be given, only Costa Rica would qualify.

Americans who are generally supportive of economic assistance face a dilemma. On the one hand, they see economic aid as potentially contributing to Central American economic development and long-term political stability. On the other hand, they fear that aid poured into a boiling cauldron will quickly evaporate. Soon American newspapers would be full of stories of how U.S. aid ended up in Miami bank accounts, while the portion that remained in the region was devoted to urban consumption and counter-insurgency programs rather than productive investment--or was diverted by corrupt officials into the hands of private merchants or even the guerrillas. The danger is that--as occurred during the Vietnam War--all foreign assistance programs will be tarnished in the eyes of the American public. On balance, I conclude that the friends of foreign assistance should be extremely wary of disbursing large-scale aid in the current political climate in Central America.

Given political peace, the region could profitably utilize substantial amounts of external capital. If not properly channeled, however, there is a

danger of "capital swamping." Massive capital inflows can have a distorting effect on the recipient economy. Interest rates and other incentives to encourage domestic savings may be depressed. Governments may feel no need to increase taxation and to reform their fiscal structures. The exchange rate may become overvalued, thus discouraging producers from exporting, while imports overwhelm domestic production. In short, the recipient country is in danger of becoming dependent upon an external life-support mechanism, and of spending the aid wastefully.

A second danger of very large aid flows to very small economies is that foreign governments are inclined to dictate rather than listen. The AID director can become more important than the local finance minister. Local nationals may lose the will to take initiatives, while at the same time becoming resentful of foreign manipulation.

The aid program recommended by the Commission has a decidedly bilateral flavor. A portion would pass through a new Central American Development Organization (CADO), which would include Central American representatives, but it would be led by a U.S. official apparently with veto power. Other donors would only have "associated status," and individual Central American nations could be excluded on political grounds. This organization might give the United States leverage in the short term but it could breed division in the region and resentment against the United States. Central America is searching for greater autonomy, and a vast aid program dictated and run by North Americans could well create more problems for us and our friends in the region than it solves. Moreover, whereas bilateral aid programs can sometimes serve immediate political objectives, they often are unable to maintain leverage over the recipient nation's economic policies. If the donor nation is strongly committed for security reasons, the recipient government often feels that it can ignore the advice of aid officials and be confident that

higher authorities will keep the funds flowing.

The solution to these problems is to expand on the CADO proposal and to construct genuinely multilateral development programs. A page from the original Marshall Plan can be lifted in developing a mechanism to channel the new aid flows while reducing dependence. While the capital would be American, Secretary of State George Marshall wanted the recovery program to be a product of united European efforts. In his famous 1947 address outlining his proposal, Marshall called on Europe to pull itself together, with the assistance--but not the direction--of the United States.

Central American governments have already made initial efforts at working together to design plans for economic recovery. Moreover, regional institutions of the Central American Common Market framework have been in existence for two decades. With enhanced manpower and resources, they could coordinate the development of proposals and assist in their implementation.

Multilateralism at the recipient end could be matched by multilateralism at the donor end. The United States could join with other interested nations and international development organizations to form a donor consortium. With many donors facing many recipients, a process would be created that avoided the pitfalls of a purely bilateral arrangement between a single, powerful donor and a very weak, isolated recipient. At the same time, the presence of the multilateral development agencies provides a more expert and objective source of policy analysis and therefore greater leverage over recipient country economic management. Multilateral at both ends, such a mechanism addresses both the political and economic dilemmas inherent in "capital swamping."

The original Marshall Plan was a force for unity, requiring the Europeans to agree on a single economic program. Similarly in Central America, the United States should pursue a number of objectives in its economic program,

but it should set a single condition--that all the nations of the region reach agreement on a comprehensive plan or plans for the reconstruction and development of the region. The first draft should come from the region itself. A substantial portion of all donor monies would pass through Central American regional institutions, and bilateral programs would also conform to the consensual guidelines.

Perhaps most importantly, as the original Marshall Plan demonstrated by requiring the various states to work together to design and implement economic recovery programs, external donors can assist farsighted leadership to contain the centrifugal forces of narrow nationalism for the benefit of the whole. By doing so, the donors can both promote regional economic integration and political accommodation.

It would be shortsighted to help Central America and exclude the Caribbean, which suffers from similar economic problems. Both regions would be helped by breaking down barriers between them. The new aid mechanism for Central America should be linked to the existing World Bank-led Caribbean Group for Cooperation and Economic Development.

To avoid waste and disillusionment, this economic aid program should not start until the shooting stops; it cannot succeed unless all of Central America participates; and it should not begin until agreement is reached that the Central American governments will draw up regional plans for discussion and approval by all parties on how the funds should be allocated.

If U.S. aid is to be effective, we will need a more coherent and realistic political strategy that can bring peace to Central America. The original Marshall Plan, it is worth recalling, was implemented after the war.

From 1960 to 1978, Central America made impressive economic progress, and it can do so again with peace, a good economic program, and substantial ex-

ternal assistance. A future for Central America of economic growth with equity is far from hopeless.

#### Conclusions

To summarize, a coherent and pragmatic policy can be constructed on these premises:

\*The initial causes of the crisis are essentially indigenous, and indigenous revolutions are not necessarily a threat to U.S. interests.

\*U.S. power in the region is far superior to the Soviets', and a policy built around economic incentives and regional security accords--supported as appropriate with security assistance--should be capable of containing a cautious and tightfisted Soviet Union. However, an overly ambitious and interventionist U.S. policy could inadvertently assist Soviet global strategies by diverting U.S. resources, alienating U.S. allies, and undercutting U.S. credibility.

\*Economic aid can be an important stimulus to development, and can help cement processes of accommodation within and between nations. However, political security is a prerequisite for economic recovery--and present policies, even if supported by increased resources, are unlikely to produce peace.

\*The emergence of the Contadora Group has created a welcome opportunity for U.S. diplomacy to defend our fundamental interests at lower cost. But if Contadora is to work, the United States will have to place more political capital behind it and avoid contradictory actions. Multilateralism in diplomacy should be matched with multilateralism in economic assistance.

\*U.S. policy should strive to keep radical regimes of the left or right integrated into the Western economic system and separate from the Soviet

strategic network. Specifically, we should seek to negotiate verifiable security accords with Nicaragua to be reinforced with multilateral aid.<sup>7</sup> Regional economic recovery will be severely hampered and regional integration will be impossible without a healthy and cooperative Nicaragua.

\*Sharply increased security assistance is more likely to militarize than to democratize the region. Nor is another round of elections likely to bring peace to El Salvador. An intense, multilateral effort must be made to bring the warring factions to the negotiating table. Any agreements reached should be guaranteed by a continuing international presence and other multilateral accords.

Such policies would be based on confidence in our geostrategic superiority and in our economic strength. The objectives are realistic and sufficient to defend fundamental American interests. They would also preserve the moral authority--and the credibility--of the United States.

Thank you very much.

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<sup>7</sup>For an excellent series of proposals to bring peace to the region, see Address by Representative Michael D. Barnes, "A Democratic Policy for Central America," before the Women's National Democratic Club, December 12, 1983.

Senator KASSEBAUM. Thank you very much, Mr. Feinberg.  
Mr. Krauss.

**STATEMENT OF MELVYN KRAUSS, PROFESSOR OF ECONOMICS,  
NEW YORK UNIVERSITY, NEW YORK, N.Y.**

Mr. KRAUSS. The United States has clear interests in Central America. These are to promote democracy and to promote economic prosperity. Attainment of these two objectives is important both for humanitarian and U.S. national security reasons. We should not underestimate the enormity of this task. Political democracy in particular is like a gem, valued both for its beauty and scarcity. In truth, there are very few examples of working democracies in the poorer countries.

We must recognize the long-term nature of this objective, and that there is a reasonable chance of failure. To insure ourselves in case of failure, the economic role that government plays in Central American societies should be scaled down. Political democracy, after all, refers to the political process, not the market system. The more things done for the market system, and the less through the political process, the less relevant will be the failure to achieve political democracy, at least in a relatively short time.

For example, popular control over the political process is much more important in a Socialist society where government distributes 90 percent, say, of national income than in a capitalist society where it distributes, say, only 10 percent. There is simply more at stake in politics where economic life is highly politicized.

This is not to argue, of course, that political democracy is not a worthwhile objective—it most certainly is—only that we should be realistic as to our prospects for achieving it in regions of the world where traditions have run in opposite directions.

Happily, reducing the role that government plays in the nation's economic life also is an indispensable condition for promoting economic prosperity in poorer countries. In comparing East Germany with West Germany, North Korea with South Korea, Red China with Nationalist China, Finland with the Soviet Union, and the Ivory Coast, say, with Ghana, it is always the country with big government that has produced continuing poverty for its citizens, while that with small government has produced economic prosperity.

The single most prosperous region of the Third World during the past quarter century has been the Pacific Basin area, and the countries of this area by and large have allowed government to play only a small role in their economic lives. One conclusion therefore is inescapable, that the United States must use its influence in Central America to reduce the role that Central American governments play in their society's economic life.

We must promote the privatization of the Central American economies and discourage their socialization. We should use the Pacific Basin area as a model. There are three ways the U.S. Government can assist in this privatization process.

First, to encourage private industry in Central America, the United States must remove all protective barriers to exports from this region. Unrestricted and unconditional access to the U.S. market is the sine qua non for the economic survival of our neighbors to the south. When

Congress and the administration give in to special interests and the American trade union movement that plead protection against Central American exports, in effect they join the Soviets and Cubans in a silent conspiracy to undermine the United States and the hemisphere in which we live.

If we keep their exports out of our country, can we expect them to keep the Communists out of theirs? The geopolitical consequences of protection against Central American exports has been grossly underestimated, in my view.

Second, to help privatize Central American economies, we must reduce, not increase our economic aid to them. Foreign economic aid, it must be remembered, represents government-to-government income transfer. It increases the size of recipient governments, and thus socializes, not privatizes, their economies.

Experience indicates economic aid very seldom trickles down to the people whose hearts and minds we hope to favorably influence. Rather, aid reinforces the privileged positions of elites whose policies more often than not are responsible for the recipient country's sorry economic plight in the first instance.

It is dubious in the extreme that U.S. national security is enhanced by our financing of government policies in the Third World that damage their own economies. At some point, the chickens come home to roost. We get regimes that are hostile to us, to wit, Iran and Nicaragua. Stripped of its rhetoric, foreign economic aid is little more than a mechanism for buying elites and preserving the status quo.

This is not good enough for the millions of Central Americans who want the type of change that will bring them a better life, and it should not be good enough for the United States, whose traditions and current national security interests dictate that such change be supported.

It is thus my opinion that the recommendation for dramatically increased levels of foreign economic assistance to Central America set forth in the report of the National Bipartisan Commission on Central America, and recently proposed by President Reagan, is a mistaken one, that such aid will damage rather than help recipient economies, and further, that such damage is inimical to U.S. national security interests.

President Reagan is surely correct when he says, if we do not help now, we will surely pay in the future, but the way to help is by trade, not aid.

The third way the United States can help privatize the economies of Central America is to promote political stability there. One does not have to be a professional economist to understand that political stability is a necessary condition for economic prosperity. Without it, businessmen will not invest, lenders will not lend, and foreign capital will not flow in.

The sad truth is that so long as the Central American economies are externally threatened by Soviet-sponsored aggression, economic progress will not be possible in that area of the world. Some in this country argue for a military solution, and others for an economic solution to Central American problems, as if the two were competitors, not partners. This could not be further from the truth. A military solution is

an essential precondition for an economic solution, and the economic solution is what ultimately justifies the use of military force.

Because economic progress in Central America is imperative for our longrun national security interests, and for humanitarian interests as well, the United States must help governments in that region defend itself against external aggression. I thus would like to associate myself with the recommendations of the Kissinger report that call for increased levels of military support for the governments of El Salvador, Honduras, and other Central American countries.

In summation, I agree with the Commission's findings that U.S. interests in Central America are vital. It is one thing to have hostile governments thousands of miles from our shores, another to have them on our front doorstep. To promote the economic prosperity of our Central American neighbors, the United States should encourage them to have governments that are militarily strong, but economically weak.

Increased military assistance to the area can provide the political stability essential for economic development. Decreased economic aid will help shrink the economic role government plays, and thus privatize the economy. But if our Government really is sincere in its desire to render economic assistance to our Central American neighbors, it should give their exports unlimited and unconditional access to our markets. That is the kind of help that would do the people and not just the ruling elites in these countries a lot of good.

Finally, military assistance should not be made conditional on improvements in human rights, in my opinion. No matter how important the concept may be to us, it is degrading for a great power such as the United States to have to impose human rights conditions on its military assistance. It implies this country is somehow not in control, and that the recipient countries are out of control.

This is not the case as I understand it, and there would appear to be no acceptable reason why the United States should give this false impression to the rest of the world. Moreover, realistic human rights conditions are hard to define. Operationally, they are difficult to impose without being either irrelevant, too easily met, or what is more likely, too stringent, in which case our friends have to fight with one hand tied behind their backs while the friends of the Soviets do not.

In assuaging the moral sensitivities of the comfortable few in this country, unrealistic human rights conditions on military assistance threaten the political stability and economic progress of the uncomfortable many in Central America.

Senator KASSEBAUM. Thank you very much.

Mr. Chairman, Mr. Leiken will be our next witness.

The CHAIRMAN [presiding]. Fine; who has not yet testified?

Senator KASSEBAUM. There are four remaining. Mr. Leiken is next.  
The CHAIRMAN. Very well, Mr. Leiken.

#### **STATEMENT OF ROBERT S. LEIKEN. CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, AND EDITOR, "CENTRAL AMERICA: ANATOMY OF CONFLICT," WASHINGTON, D.C.**

Mr. LEIKEN. Thank you, Mr. Chairman, and thank all of you for inviting me here to testify. As Senator Percy mentioned, I am the editor of the Carnegie study, "Central America: Anatomy of Con-

flict." In my written statement, I make reference extensively to our findings vis-a-vis those of the Kissinger Commission.

I am going to restrict my remarks today to the questions of security and negotiations that the Commission raises.

The Kissinger report is heavily laced with talk of peaceful settlement and negotiations. It is in fact a proposal for military escalation.

Senator BOSCHWITZ. Are you reading from your statement?

Mr. LEIKEN. No; I read one line from my statement.

Senator BOSCHWITZ. Can I follow your remarks in this?

Mr. LEIKEN. More or less, but not entirely.

Senator BOSCHWITZ. I will read it later.

Mr. LEIKEN. As I said, the report is heavily laced with talk of negotiations. In fact, it is a proposal for military escalation. It continues the negotiating strategy of the Reagan administration which has been proven unsuccessful over the last 3 years. It does not examine the outcome should this uncompromising and unpromising negotiating strategy continue to fail. It is a recommendation for military escalation without confronting the consequences of that recommendation.

In our study, we looked at some of those consequences, particularly for example, in Salvador, where in our judgment the increase of military equipment, particularly helicopters, would target American advisers. Increased aid would increase corruption in the Salvadoran army, and therefore could worsen the military situation.

In Nicaragua, again, in our judgment, the rejection of a viable negotiating strategy will eventually lead to the contemplation of United States direct intervention in Nicaragua, and it is calculated that between 2,000 and 5,000 American lives would be lost in such an eventuality, and between 9,000 and 19,000 American casualties.

The Commission judges the historical record of the United States in Central America to be "mixed." The report not only sloughs off our share of responsibility for Central America's poverty and dependence but actually prettifies the historical record. At most, it says we can be accused of being "at times insensitive, at times interfering, at times preoccupied elsewhere." This doublethink is perhaps appropriate for a report issued at the commencement of 1984, but it is hardly an objective depiction of United States-Central American relations.

Even more important, this liquidating of the historical record, this rewriting of history leads to mistaken analyses and poor policies. There can be no understanding of pro-Sovietism in Central America unless anti-Americanism is acknowledged as an indigenous current of feeling in Central America. By attributing radical Marxist, Communist, and pro-Soviet currents in the left simply and entirely to external intervention, we widely misunderstand the problem and handcuff our policy.

The Commission's report gives no real explanation for Soviet success in linking up with Central American revolutionary movements. It tends to glide over a history of U.S. interventions usually in support of "free elections" that have created a cycle of dictatorships, revolutions, and renewed intervention.

I would like to focus on three elements of the security chapter in the report. One is the Soviet connection. The report correctly analyzes the fact that the Soviets were on what I agree was "a global offensive" during the seventies. However, this analysis of Soviet activities is frozen in the 1979-80 period.

As noted in the Carnegie study, Soviet activities in the region have actually diminished as a result of their own problems, the well-known internal economic problems, their problems in Afghanistan, in Eastern Europe, et cetera.

In addition, within the region, the Soviets and the Cubans have been on the retreat since the failed final offensive of January 1981, in El Salvador, and also because of the policies of the Sandinista government which have created problems and fears in the region as a whole.

This may be one of the reasons why Cuba has adopted the negotiating—the position open to negotiations that you mentioned earlier, Mr. Chairman, and that President de la Madrid talked about.

With respect to Nicaragua, I think the report in analyzing the military buildup fails to note the defensive character of that buildup. The Carnegie study finds the Nicaraguan army is not capable of invading Honduras, still less of facing an alliance of the other Central American countries backed by the United States.

In the case of El Salvador, the Commission fails to draw the proper conclusions from the fact that the Salvadoran guerrillas have been getting most of their arms from the Salvadoran army itself, and not from external sources, and that the Salvadoran guerrillas seem to move with impunity in the Salvadoran countryside.

With respect to human rights, the Commission argues that an increase of military and economic assistance will improve the human rights situation. This ignores the serious morale and leadership problems of the Salvadoran army, problems which reflect the social crisis of El Salvador. In addition, our increased aid has not to this date improved the human rights situation in El Salvador.

Finally, for a report that pays a great deal of attention to negotiations and talks a great deal about negotiation, there is a glaring absence of an innovative negotiating strategy to be found in it. In our Carnegie study, we suggest some new approaches toward negotiations which perhaps we can discuss in the question and answer session.

A massive aid commitment to Central America will only be viable, like the original Marshall plan itself, once peace returns to the region. Without a realistic negotiating strategy, the Kissinger Commission's economics will not work. Without a negotiating strategy, the Kissinger Commission's innovative economic proposals appear only as inducements to participate in a military strategy for restoring American hegemony in the isthmus.

For the Kissinger proposals to lead to economic development, there must first be a regional political settlement. This would make possible the cooperation of Central American countries, the revival of the Central American common market, and therefore help create the conditions for economic growth.

With those conditions in place, U.S. aid would then assist Central American countries to fulfill their own development agendas.

Thank you.

[Mr. Leiken's prepared statement follows:]

#### PREPARED STATEMENT OF ROBERT S. LEIKEN

I am a Senior Associate at the Carnegie Endowment for International Peace and the editor of the Carnegie study "Central America: Anatomy of Conflict." In this statement I shall be making reference to some of the findings of our study, which is a collection of essays by prominent Central American specialists.

For those who wish to consult it, I shall include author and page number in parentheses. I am also appending to this prepared statement my introductory essay to the study. The following comments on the Report of the National Bipartisan Commission on Central America will address chiefly questions of security and negotiations.

The report is heavily laced with talk of peaceful settlement and negotiations; it is in fact a proposal for military escalation. As a political settlement it offers exactly what has failed as a Reagan negotiating program for 4 years—the demand that the Salvadoran insurgents participate in government-run elections and that Nicaragua bend to the United States will. The Kissinger Commission does not examine the outcomes should its uncompromising and unpromising negotiation strategy continue to fail. The report is a recommendation for military escalation without confronting the consequences of that recommendation.

The Carnegie Endowment study examines the option of military escalation in El Salvador short of the insertion of U.S. combat troops. It concludes that the proposed delivery of further U.S. military equipment (especially helicopters) will offer a tempting target to the guerrillas, and be likely to draw in American troops to protect it (Theodore Moran p. 164). Increases in U.S. military assistance to the Salvadoran Army will not permanently alter the military balance in the country but will, as in the past, sharply heighten corruption within the army. As the military situation continues to deteriorate the United States will eventually be forced to contemplate direct military intervention.

By the same token it is evident that the current pressure tactics against the Nicaraguan Government, regarded by the Kissinger Commission as "incentives for negotiations," are not achieving administration purposes. Here again the United States will eventually be forced to consider direct intervention. The Carnegie study also looks at the option of invading and occupying Nicaragua. It calculates that by conservative estimates it would cost between 2 and 5,000 American dead and 9 to 19,000 American wounded and leave the United States with the task of managing indefinitely the hostile occupation of the country with protracted guerrilla resistance (Moran pp. 166-167).

The report takes up further down the slope toward regional war, U.S. military escalation and eventually direct U.S. intervention and occupation. It also represents a more advanced stage in the commission of a gigantic historical error—one which will repeat but dwarf the cycle of errors which have brought United States-Central American relations to their current crisis.

"On behalf of 'free elections' in the 1920's the United States created a 'non-partisan,' 'professional' army in Nicaragua (the National Guard) and led it into battle against Sandino's guerrillas—providing not only equipment and training, but also Marines as officers as well as roads, medical care, and the inevitable electoral apparatus. After discontent at home and casualties in Managua forced the Marines to abandon their 'democratic project,' General Somoza, our hand-picked head of the National Guard, shoved aside (via the traditional Central American military coup) elected government, democracy, and all other Western paraphernalia, and established his 40-year dictatorship" (Leiken pp. 5-6; cf. Howard Wiarda p. 265; Walter Lefebvre p. 54-56).

The Kissinger report section on "historical perspective" is characterized by a lack of perspective. It discusses the Nicaraguan intervention but it does not mention that its main justification was "free elections." Perhaps this is because the same reasoning is being used today. According to the report U.S. policy in Central America reflected "both a great power interest in keeping the hemisphere insulated from European intrigue and the concern for others' well-being that has often animated our foreign policy. The result however was a high degree of interventionism . . ." (KC p. 34). United States concern for "others' well-being in Central America" somehow has manifested itself in continued Central American poverty and backwardness while its "great power interest" in avoiding "European intrigue" has manifested itself in intervention and hegemonism.

The Commission judges the historical record of the United States and Central America to be "mixed" (KC p. 37). The report not only sloughs off our share of responsibility for Central America's poverty and dependence, but actually prettifies the historical record. At most we can be accused of being "at times . . . insensitive, at times interfering, at times preoccupied elsewhere" (KC p. 37). This "doublethink" is perhaps appropriate for a report issued at the commencement of 1984, but it is hardly an objective depiction of United States-Central American relations.

Even more important this liquidating of the historical record, this rewriting of history, leads to mistaken analyses and poor policies. There can be no under-

standings of pro-Sovietism in Central America unless anti-Americanism is acknowledged as an "indigenous" current of feeling in Central America. By attributing radical, Marxist, Communist, and pro-Soviet current in the left simply to external intervention we widely misunderstand the problem and handcuff our policy.

The Commission's report gives no real explanation for Soviet success in linking up with Central America revolutionary movements. It tends to glide over a history of U.S. interventions (usually in support of "free elections") that have created a cycle of dictatorships, revolutions, and renewed intervention.

In those Central American countries where the United States has been the backer and the perceived beneficiary of the ancien regime, anti-Americanism has all too naturally translated into pro-Sovietism. Nowhere has this been more true than in Nicaragua, where the United States created and backed Somoza's National Guard. This factor, more than anything else, helps explain the pro-Soviet bias of many Sandinista comandantes.

The Soviet problem in Central America was not created by President Reagan. Is it a residue of history. But Reagan administration policies certainly have fulfilled the prophecies and vindicated the proclivities of more dogmatic Sandinistas. Moscow's chief strategic asset in Central America continues to be the United States' backing of reactionary oligarchies and the legacy of anti-Yankeeism.

As a result, as the Commission report correctly notes, we now have a national security problem in Central America. But the Commission's security diagnosis as well as its prescription is profoundly flawed. I think this will be evident by comparing the Kissinger report analysis of three security issues with our own findings in the Carnegie study.

#### THE SOVIET CONNECTION

The Kissinger Commission report contends that "What gives the current situation its special urgency is the external threat posed by the Sandinista regime . . . supported by massive Cuban military strength, backed by Soviet and other East bloc weapons, guidance and diplomacy, and integrated into the Cuban network of intelligence and subversion" (KC p. 107). The report places this in the context of the Soviet global offensive which began in the mid-1970's and warns that "the advance of Soviet and Cuban power on the American mainland affects the global balance" (KC pp. 88-93).

However, this analysis of Soviet intentions is frozen at the 1979-80 period. The Carnegie study notes the diminished short-term threat of Cuban or Soviet intervention.

"The 'global correlation of forces' which Soviet publicists found quite favorable during the 1970's, shifted against Moscow during the first year of the Sandinista government. Resistance to the occupations of Afghanistan and Kampuchea; the challenge of Solidarity; the economic difficulties of Cuba and Vietnam; political friction with Third World allies such as Ethiopia and Angola; the movement of significant non-aligned countries India, Iraq, and Algeria away from Moscow; the NATO resolve to deploy the Pershing and cruise missiles and the American rejection of SALT II all darkened Moscow's international panorama. Domestically, the U.S.S.R. had been plagued by economic stagnation and poor harvests, a recurring succession crisis, problems of morale and materiel in the armed forces, and rising tensions among its national minorities. As a result, the Soviet worldwide offensive, with Cuba as its spearhead, came to a pause, if not a halt, in 1980-81" (Leiken p. 10).

". . . Moscow can be expected to . . . take advantage of the turmoil in Central America. At the same time, the limits already evident in its commitments indicate that Moscow will proceed with caution. . . . The strategic importance attached by the United States to the region makes the extension of Soviet influence an attractive target, but also convinces the U.S.S.R. to exercise caution in pursuing an objective" (Morris Rothenberg pn. 144-45).

"The short-term Soviet danger—widely exaggerated by the Reagan administration—has receded. But the real Soviet danger in Central America is not short-term. . . . American overreaction to the short-term Soviet threat could sow seeds to be harvested in the next generation or the next decade" (Leiken p. 10).

"Moscow believes that United States involvement in Central America will inevitably run head on into the long-term trend of Latin American assertiveness, independence and anti-Americanism. Thus, the United States may win

in Central America but jeopardize important positions elsewhere on the continent. The main arena of struggle in the hemisphere will not be in Central America or in the Caribbean but in the major Latin American countries. . . . As in other areas, Moscow foresees 'ebbs and flows, successes and temporary defeats' in Central America, an approach which makes it possible for Moscow to accept leftist setbacks, if not with equanimity, then at least with a belief of ultimate reversal", (Rothenberg pp. 146-47).

The report states that "indigenous reform movements, even indigenous revolutions, are not themselves a security concern of the United States." But it claims the insurgent movements present in Central America today are Soviet-linked and, therefore, are genuine security threats (KC p. 84). The Carnegie study notes: "the diversity and even collision of views among the Salvadoran revolutionary groups in particular, and Central American groups in general, should force us to examine this assumption" (Leiken p. 125).

For example, in El Salvador, "both the ERP [The People's Revolutionary Army] and the RN [The Armed Forces of National Resistance] have been quite critical of the Cuban presence and influence in Managua. ERP leaders have said that they would not want to see 'so many Cuban doctors, teachers, and advisors in El Salvador.' A leading RN official considers Nicaragua's press censorship a grave error. 'If they didn't like La Prensa, they should have created a better newspaper.' He was critical too, of the Cuban role in Sandinista economic planning and thought that together they were leading the country toward economic disaster" (Ibid. p. 120).

In Guatemala and Costa Rica similar divisions exist among leftist groups. "The Guatemalan Revolutionary Organization of the People in Arms (ORPA) and the Rebel Armed Forces (FAR) replicate some of the RN and ERP agnosticism toward Moscow. . . . In the summer of 1982, the Costa Rican electoral front, Pueblo Unido (People United), split twice over the issues of broad alliances and the Soviet Union. Eric Ardon, the leader of the Revolutionary Movement of the People (MRP) declared that a major reason for separating from the Vanguardia Popular, the pro-Soviet party, was that 'they are permanently aligned with the Soviet Union'" (Ibid. p. 126).

As a former Sandinista official notes in the Carnegie study, "While at the beginning of the [Sandinista] revolution there was a pro-Soviet consensus among the comandantes, this does not mean that initially there were not some comandantes who questioned the value of such an alliance—one which has not delivered the means to overcome the crisis. Thus, while it is true the Reagan administration was not directly responsible for the resulting close ties between Managua and Moscow, U.S. policy toward the revolution may be blamed for complicating the dynamics of the National Directorate" (Arturo Cruz Sequeira p. 106).

#### NICARAGUA AS A "PLATFORM FOR SUBVERSION"

The report exaggerates Nicaragua's offensive military capabilities. While the Nicaraguan build-up has been dramatic, the Carnegie study notes its limitations:

"Whatever intentions the Sandinista comandantes may have, their forces are not sufficient to invade even the relatively lightly-armed Honduras, let alone conquer an alliance of Honduras, El Salvador and Guatemala, backed by the United States" (Joseph Cirincione and Leslie Hunter p. 177).

Even with the Nicaraguan advantage in armor, troops and combat experience, the odds favor Honduras should the Sandinistas attempt to invade. In addition to the traditional advantage of the defending forces over the attacking army, the geography of the region favors Honduras. The most likely invasion route is through the relatively flat terrain due east of the Gulf of Fonseca, where Nicaraguan armor is now concentrated. Honduras could blunt any attempted armored thrust through this narrow gap with its superior air force . . . With its little air force and few anti-aircraft weapons, the most the Sandinistas could accomplish by an invasion would be the capture of Choluteca, the biggest town in southern Honduras" (Cirincione and Hunter pp. 177-78).

"Moreover, Nicaragua would have difficulty sustaining an invasion, given its limited fuel supply and logistical capabilities, particularly if the Honduran Air Force struck Nicaraguan fuel and supply depots and the United States blocked resupply by sea. . . . Thus, the Nicaraguan military threat to its neighbors (with the exception of defenseless Costa Rica) is currently limited to the shipment of military supplies to guerrilla forces and the possibility of military raids within 50 to 80 km of its border" (Ibid. p. 178)

While clearly there has been important outside support for the Salvadoran guerrillas, few observers believe that supplies from Nicaragua are decisive to the Salvadoran FMLN. While some supplies no doubt cross the border, U.S. reporters have frequently noted the guerrillas obtain much of their equipment and arms from government forces.

As a former Salvadoran Government official notes in the Carnegie study, "In 3 years of fighting, some 5,000 to 6,000 guerrillas have moved in large units freely around the countryside in broad daylight. There are some 500,000 supporters who care for the wounded, hide their ammunition, transport their arms, give them information on the army, and perform a variety of other tasks. The military and its U.S. advisors have not effectively broken this network . . ." (Leonel Gomez p. 222).

The report details the dramatic Cuban military build-up since 1975. However, it downplays the limited utility of these forces in the region. A State Department document, cited in the Carnegie study, concludes: "Cuba does not have the wherewithal to conduct an outright invasion of another nation in the region except for the Caribbean micro-states" (Cirincione and Hunter p. 176).

Cuba has a limited ability to aid Nicaragua, either defensively or offensively. While Cuban MiGs could streak to Nicaraguan airfields, "transporting Cuban troops or any part of the substantial Cuban arsenal would be more difficult, particularly in the event of a U.S. blockade around Nicaragua" (Ibid. p. 178).

#### WILL MORE AID LEAD TO MORE HUMAN RIGHTS?

To win the war against the guerrillas and to end the "brutal methods practiced by certain reactionary forces in Central America" (KC p. 95) the Kissinger Commission report recommends substantial increases in U.S. military aid and the adoption of "much more modern methods of counter-insurgency" in order to "professionalize and humanize operations" (KC pp. 95-96).

The Commission avoids examining the Salvadoran Army's profound morale and leadership problems by blaming inadequate U.S. aid for its poor performance. The Commission recommends the creation of "local popular militias" and the adoption of "U.S. counter-insurgency methods" (KC p. 95); however, these are part of the ongoing National Plan adopted at the United States urging by the Salvadoran Army in 1983. After 7 months of operation this plan has shown little sign of success. The war in El Salvador has gone from bad to worse.

The Carnegie study demonstrates that past increases in military aid have not resulted in the desired reforms in the Salvadoran Army.

"By late 1983, in part due to the change in Defense Ministers, the Salvadoran Army showed some signs of improved command and combat capability, although it was still insufficient to subdue the guerrillas. Widely publicized area offensives had limited results, casualties remained high and human rights abuses were again increasing. The military's low morale and the rural population's apathy were chronic problems. \$136 million in military assistance for fiscal year 1983 had done little to transform El Salvador's army into an efficient, modern force and there was little reason to think that the \$86.3 million initially requested for fiscal year 1984 would be any more effective. Despite three years of intensive U.S. efforts, the military still abuses its own citizenry, and responded more to its internal power struggles than to the civil conflicts" (Richard Millett p. 76).

The report deplores the activities of the death squads, but the re-adoption of "conditionality" is unlikely to end their systematic murders. The Commission is to be praised for condemning the Salvadoran death squads, but these squads are linked to powerful economic and military groups stymying reform and blocking negotiations. To recommend increased economic and military aid will strengthen these groups, not reform them. Nonetheless, certification has been useful by drawing attention to the human rights abuses in El Salvador. While the process has probably saved lives and reduced atrocities it has not produced a basic change in the human rights situation. From his vantage point as a Washington Post reporter in El Salvador for many years Christopher Dickey writes in the Carnegie study:

"Events in the fall of 1983 suggest just how seriously Washington had been fooled, or had fooled itself about the Salvadoran army's response to its demands for improvements in human rights and improved 'command and control.' There had been embarrassments and anomalies all along. . . . But throughout 1982 and early 1983 the U.S. State Department was at least able to argue that 'abuses' by the security forces were decreasing and the death squads' disappear-

ing. The embassy's regular reports known as 'grim grams' cited statistics based on local press accounts and noted, accurately, a general reduction of tension in the capital. U.S. policy was working, U.S. officials said. Its demands on the Salvadorans were understood and were being complied with, they said.

"In retrospect it is now apparent that the decline in urban slaughter came about less because of improved command and control than because the left had basically abandoned the capital after January 1981. With few suspects there were fewer killings. Murder in the countryside, meanwhile, was less frequently reported in the local papers and thus did not show up in the 'grim gram' statistics. As soon as the left's efforts to renew operations and organization in the capital became evident in mid-1983, the death squads and the 'abuses' began to rise once again. The 'process of control' over the armed forces, at least insofar as the slaughter of suspected rebel sympathizers was concerned, proved once again to be a paper promise" (Christopher Dickey p. 40).

#### "THE SEARCH FOR PEACE"

This is the title of the chapter in the Commission report devoted to negotiations, though elsewhere and throughout the report the Commission reiterates its "hope that negotiations will bear fruit," (KC p. 84) and its perception that "without a considerable reduction in the level of violence, efforts to revise the regional economy will fail" (KC p. 64), that "of course peace is necessary before businesses will look seriously at new investment prospects" (KC p. 56), and recommends "an effort to arrange a comprehensive regional settlement" (KC p. 115). Yet all this talk of "negotiations," "political settlement" and "peace" is articulated, in Orwellian fashion, by recommendations for sharply increased military aid. A widening of the war has been the U.S. response for the past 3 years and it has brought us no closer to, but far further from, peace.

One would have hoped that a document so emphatic in support for negotiations and a peaceful settlement would have presented an innovative strategy to bring about successful negotiations. Instead we are offered only a re-heated version of current policy: we pressure the Nicaraguans by a variety of means including a "secret war" to force a change in their internal form of government and in El Salvador we seek to force the guerrillas to lay down their arms and participate in government-run elections.

All this has been tried before without success. In Nicaragua this policy, along with the policies of the Sandinista leadership, has helped to polarize the country, but also to consolidate Sandinista strength, particularly among the youth. The policy of peace through war has led only to increased war. The same is true in El Salvador where the guerrillas are now far stronger than they were 3 years ago and where U.S. military and economic assistance continues to burgeon with no light at the end of the tunnel.

A minimum requirement for a negotiating strategy would be seriously to examine the negotiating positions of its antagonists. The Kissinger Commission either simply turns its back on those positions or it distorts them. In the case of El Salvador the Commission lists FMLN/FDR statements out of context to give the impression that the opposition is opposed to elections (KC p. 110). The report claims that the guerrillas wish to "scrap" the existing armed forces (KC p. 110) when in fact the FMLN/FDR, as the Carnegie study documents, has specifically accepted the preservation of the "institutionality of the army" (Leiken p. 124). In the case of Nicaragua, as former Assistant Secretary of State Viron Vaky points out in the Carnegie study, "the administration has not to this date tested or explored" a series of Nicaraguan concessions made over the past several months (Vaky, p. 249). While the Sandinista leadership's past record certainly warrants U.S. skepticism, it does not justify imperial intransigence.

The report proposes inviting the FMLN/FDR to negotiate mutually acceptable procedures for establishing a framework for municipal and legislative assembly elections in 1985. Then a "broadly representative Elections Commission" would be established "including representatives of the FMLN/FDR" (KC p. 112). Anyone familiar with El Salvador knows that elections commissions have no power. It is absurd to imagine an elections commission could develop "security arrangements for the campaign and election" (KC p. 112). The Salvadoran government has been unable to guarantee security even for the members of parties which form part of that government.

A more promising approach is foreshadowed in Henry G. Cisneros' dissent (KC p. 128). He suggests "meaningful dialogue on coalition approaches and

structural reforms." "Coalition" is a more palatable term for what the administration calls "power sharing." Call it what you will, there is no guarantee for security in today's El Salvador without force. Only a balance of force can create adequate security arrangements for a campaign and election. For this reason negotiations are necessary preconditions to successful, legitimate, and truly free elections in El Salvador. As the guerrillas expand their "zones of control" and as the Salvadoran armed forces continue to prove ineffective despite bigger and quicker fixes of U.S. aid, the administration and Congress will approach a crossroads—negotiations or direct intervention. U.S. military intervention would only regionalize the war and make it more costly.

The U.S. public will be satisfied with a policy that opposes Soviet expansion only if it is a non-interventionist policy. The way out of this dilemma as suggested in the Carnegie study is the linkage of Salvadoran and Nicaraguan negotiations (Leiken pp. 18-26). Support for negotiations in El Salvador is our most effective and least costly bargaining chip with Nicaragua, and it would clear the way to cooperation with Mexico. Mexican support, given Nicaragua's economic and military difficulties, could provide sufficient leverage to move Nicaragua via the Contadora group into sincere negotiations with its opposition. The biggest incentive for negotiations in Nicaragua is not the use of force against the Nicaraguan regime from bases in Honduras, but the promise of negotiations in El Salvador. That carrot will be far more effective, far safer, more humane and far less costly than the stick of intervention.

The Kissinger Commission recommends \$8.4 billion in economic assistance, most of it to shore up existing regimes and existing policies through balance-of-payment support. Our study suggests a lower figure: in part by not including \$2 billion in U.S. funds to pay back the banks that the Kissinger Commission advocates; in part by targeting funds for more specific functions such as land reform. The Carnegie study found that an amply funded "negotiated solution" should cost less than \$4 billion over 5 years (Moran pp. 158-170).

Economic as well as military assistance should be used to support the larger negotiating strategy recommended in the Carnegie study. Moreover, in the absence of movement toward a regional negotiated settlement the assumptions made in the Kissinger Report about non-U.S. economic assistance are wildly optimistic. Rather, with military escalation the United States will be left providing almost the entirety of external capital flowing into the region.

Even more important a massive aid commitment to Central America will only be viable, like the original Marshall Plan itself, once peace returns to the region. Without a realistic negotiating strategy, the Kissinger Commission economics will not work. Without a negotiating strategy the Kissinger Commission's innovative economic proposals appear as inducements to participate in a military strategy to restore American hegemony in the isthmus. For the Kissinger proposals to lead to economic development there must first be a regional political settlement. This would make possible the cooperation of Central American countries and the revival of the Central American Common Market and, therefore, help create the conditions for economic growth. With those conditions in place U.S. aid would then assist Central American countries to fulfill their own development agendas.

The Kissinger Commission recommendations lead in precisely the opposite direction. They would forestall negotiations and institutionalize the divisions in the Central American countries by the device of the Central American Development Organization (CADO), whose principles the United States defines and imposes by massive doses of economic aid. In this organization "the ultimate control of aid funds will always rest with donors" (KC p. 63). Thus, the United States pays the piper and calls the tune. Is this another example of what the Kissinger report calls for our "historic cooperation with Central America"?

# CENTRAL AMERICA

## *Anatomy of Conflict*

Edited by  
**Robert S. Leiken**

Published in cooperation with  
Carnegie Endowment for International Peace

**Pergamon Press**  
New York • Oxford • Toronto • Sydney • Paris • Frankfurt

## Overview CAN THE CYCLE BE BROKEN?

Robert S. Leiken

In the public debate Central America first figured only by analogy. In its earliest statements the administration presented the area's crisis as an East-West struggle whose "source" was elsewhere than the region itself. Administration critics replied that the struggle was North-South, not East-West, with indigenous rather than geopolitical roots. The critics saw Central America as a repetition of Vietnam; for the administration the cautionary example was Angola.

But events in the region as well as American politics urged that the Central American crisis be understood on its own terms. It became evident that the Soviet-Cuban hand was not absent from the region, and, as Americans became acquainted with the handiwork of the death squads, they gathered that conditions for revolution already existed without Moscow. In addition, domestic political realities dictated that reasonable proponents of both positions acknowledge some elements of truth in the other. Neither the administration nor the congressional opposition could impose its will on the other. Demands for a bipartisan consensus arose from various quarters and for various motives (see essays in this volume by Barry Rubin and I.M. Destler).

But consensus around the wrong policy is useless, and even harmful. And sound policy begins with an accurate appreciation of Central American reality.

### CENTRAL AMERICAN REALITIES

The first necessary and longest step toward understanding Central America is the one that leaves behind the United States and Western Europe. One travels to Central America through time as well as space. The region is not just poor, but "underdeveloped." A short step from the Central American

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capitals, and one encounters the middle ages, with its wooden plows and draft animals and seasonal rhythms. Medievalism casts a long shadow on the Central American present.

Nonetheless in the past two decades, the region has known rapid economic growth, new political ideologies and the revolution in telecommunications. The Central American *campesino* lives at once in the middle ages and in the "global village." The contradiction between the old and the new is one of the central components of the Central American crisis.

While a Central American "Marshall Plan" is sorely needed, Central America does not provide the ready preconditions that Western Europe provided for the original Marshall Plan's aid and trade programs. Those were modern economies with a developed working class, an entrepreneurial spirit, which needed only to be reconstructed and to "recover." But recovery for Central America would signify a return not to prosperity and modernity, but to poverty and backwardness. While their prospects are "far from hopeless"—as Richard Feinberg and Robert Pastor stress—no Central American economic miracles are on the horizon. Moreover, as the Alliance for Progress experience has shown, outside aid can spur economic growth without necessarily translating either into development or stability. As Feinberg and Pastor indicate, Central America must rebuild after a crisis comparatively more devastating than World War II was for Western Europe. Moreover, unlike Europe, Central America must renegotiate its international economic position in order to achieve balanced and sustained growth and must contend with social classes whose privileges and power are threatened by economic growth. Central America must not only rebuild, it must build anew; it must restructure patterns of power if it is to emerge from the shadow of its medieval and colonial past. (Also see the essay by Walter LaFeber.)

The revival of the Central American common market is prerequisite to Central American economic recovery and development. Yet here another shadow of the colonial and feudal past intrudes. One such legacy peculiar to Central America is what historian Ralph Woodward has called "a nation divided."<sup>1</sup> In the sixteenth century the isthmus was organized as part of New Spain in the "Captaincy General of Guatemala." However political unity was beset by rivalries among the individual *conquistadores*. Each conquest justified a new government, giving rise to governmental rivalries, later institutionalized by the Spanish colonial "intendancy" system. In this way the Spanish colonial system helped both to create and to reinforce local factional rivalries.

These centrifugal tendencies rapidly became linked to international imperialist rivalries. Already by the sixteenth century, the French, the Dutch, and later the English were competing for hegemony with the Spanish. In the nineteenth century, aided by the British and the Americans, Central America became independent from Spain. However, efforts to create a united Central

American nation foundered on internal factionalism and outside interference. Colonial divisions were crystallized into nations. These divisions were intensified by factional fighting. While the factions were often called "liberal" or "conservative," they resembled Western European political parties only in name. They were more reminiscent of the retinues of a feudal warrior or *caudillo*.

Factional or inter-party rivalries transcended frontiers. Central American states customarily harbored exiles from rival states and habitually meddled in the internal affairs of their neighbors. These phenomena were the negative expression of Central American unity as a "nation divided."

Outside powers, now mainly England and the United States, took advantage of these factional disputes. Frequently one of the feuding factions would invite a major colonial power's assistance. Warlordism, or *caudillismo*, under the banner of "conservative" or "liberal" political parties, thus became a perpetual obstacle to both national unity and Central American federation as well as an open invitation to foreign intervention.

As Richard Millett notes, the establishment of Central American armies was a step forward in the struggle for national unity and against outside intervention. But the armies themselves became new arenas for factional and personal struggles. Armed power was displaced from the "political parties" to the national army, establishing the army as the arbiter of national politics. To this day the *coup*, and not the elections, remains the traditional means for transferring power in Central America.

Central American armies cast a shadow from the past over Central American political life. The tradition of cross-border rivalries linked to international sponsors also persists. The difference is that now the superpower rivalry has superceded that between England and the United States.

In the twentieth century, the United States has enjoyed nearly unchallenged hegemony in the region and has monopolized foreign intervention. The road to hegemony and intervention was nearly always smoothed by illusions of establishing "democracy," "free elections" and a "non-partisan army." But the residue for Central America usually has been dictatorship.

President Reagan has frequently reminded us that Central America is no further from Texas than is Washington. Indeed Central America is often treated as if it were an outlying voting district pining away for "free elections." On behalf of "free elections" in the 1920s the United States created a "non-partisan," "professional" army in Nicaragua (the National Guard) and led it into battle against Sandino's guerrillas — providing not only equipment and training, but also Marines as officers as well as roads, medical care, and the inevitable electoral apparati. After discontent at home and casualties in Managua forced the Marines to abandon their "democratic project," General Somoza, our hand-picked head of the National Guard, shoved aside (via the traditional Central American military coup) elected government,

democracy, and all other Western paraphernalia, and established his forty-year dictatorship. Nonetheless, in Franklin D. Roosevelt's famous phrase, he was "our son of a bitch."<sup>2</sup> Future generations of Nicaraguans would draw the conclusion that American electoral parochialism and innocence abroad was simply a cover for American hegemonism.

If American innocence and Washington-made democracy has its disingenuous and imperial side, the Central Americans had the studied habit of "obeying" (in form) but not "complying" (in substance). "Se obedece pero no se cumple" was the Spanish motto for this deep-seated cultural resistance to outside dictates. Just as they had formally "freed" the slaves in accordance with Spanish and clerical dictates while converting them into peons, Central American rulers learned to hold "elections" and to observe the forms of democracy while the military retained its stranglehold. Christopher Dickey shows how the multiple and systematic cover-ups for the assassination of U.S. religious workers and labor advisors is but one example of the quagmire in which American reformist illusions sink in Central America.

## THE CENTRAL AMERICAN CRISIS

Central America entered the modern era against a social, economic and historical backdrop similar to many Third World countries. But unlike most of the rest of the Third World, Central America has remained under the tutelage of a major power, and unlike many other Latin American countries, Central America's politics generally have not emerged from medieval shadows. After 150 years of formal independence, the Central American economies remain largely export economies, mainly dependent on two or three export crops. Although what was exported was hardly vital to its metropolitan importers—the coffee, sugar, and fruit to top off a rich meal—the export economy formed the social and political structure of the exporting countries. However, Central America has seen appreciable economic growth in the past two decades. Many countries, such as El Salvador and Guatemala, have achieved a higher level of modernization than many of their Third World counterparts. However, under the social and political conditions prevailing in Central America, economic growth has not been a force for stability as it was in Western Europe in the late 1940s, but for the opposite. Although the medieval landscape of Central America acquired some of the appurtenances of the twentieth century and the old landlords and a small new rural bourgeoisie prospered, the producers themselves suffered a dramatic deterioration in their living standards.

As landless peasants poured into the suburban shantytowns, trebling urban populations since the 1960s, the Central American countryside began to invade cities, such as San Salvador, where the wealthy sought sanctuary in

armored cars and behind guarded, electrified walls. When regional economic growth slowed to a standstill in the late 1970s, a major crisis was unfolding.

The previous status quo in Central America rested on a relatively immobile socioeconomic structure, authoritarian governments monopolizing armed power, the allegiance of the Catholic church, an economic dependence on the United States, and, in the last instance, U.S. intervention. All of these pillars have cracked in the last several years; some have crumbled altogether.

From 1950 to 1980 the countries of Central America passed through profound changes. There was now a middle class, an urban working class, rural landless laborers, and masses of impoverished peasants. Moreover, the shock of earthquake and massive relief efforts caused a profound impact on social awareness at the local level. Church and other socially-concerned sectors were mobilized in relief efforts.<sup>3</sup>

The centuries-old Central American alliance between sword and church has ruptured. The new activism in the Central American church reflects the emergence of a national middle class rooted in the industrial and service sectors and, cosmopolitanized by international financial institutions, university education, and exposure to Western media. The church has been deeply permeated by new social forces and ideas, but Central American armies have resisted similar modernizing currents of military reform movements.

Officers and oligarchs also resisted pressure for agrarian reform which built in Nicaragua, Guatemala, El Salvador, and Honduras during the 1960s. Agrarian reform was one of the demands common to the economic and political reform movements that emerged nearly simultaneously in each of these countries in the early 1970s. The reform movements suffered similar fates. In 1972 the Salvadoran electoral coalition led by Napoleón Duarte and Guillermo Ungo was deprived of victory by fraud and military coup. The populist reform movement led by young military officers that came to power in Honduras in the same year had been dispersed by 1975. In Guatemala the reform coalition led by General Efrain Ríos Montt was robbed of victory by an electoral fraud in 1974.

Thus economic, social and ideological transformations were not followed by adjustments in the political apparatus, or by the kind of democratic revolutions that took place in the West during the late eighteenth and nineteenth centuries after similar socioeconomic changes. Instead, democratic political channels were blocked. Agrarian reform was stymied or paralyzed. Labor unions encompass only a small minority of the working population, and "labor is relatively unable to defend its interests in an organized way in most of Central America."<sup>4</sup> Instead in El Salvador, Guatemala and Nicaragua, left-led popular organization and guerrilla movements, often with powerful Soviet and Cuban influence, have incorporated and directed popular discontent. For 20 years, the Sandinistas had been calling for an armed struggle against Somoza. The Central American crisis helped make their tactics

viable. The Sandinista victory in Nicaragua was bound to have a ripple effect throughout the region, with its interwoven histories and shared conditions.

## SOVIET PRESENCE

The crisis of the American-backed Central American status quo offered Moscow an unexpected opportunity to bedevil its superpower rival—but one to be managed discreetly. As Morris Rothenberg points out, Moscow had consigned Central America to the U.S. sphere of influence by “geographic fatalism.” When this region, like other “backyards” of the world, was belatedly swept into the vortex of national revolution beginning with the 1979 Sandinista insurrection, Soviet interest quickened. Revolutions in the U.S. “backyard” will inevitably target U.S. hegemony and find favor with its enemies. Yet, precisely because it is in the American zone of influence, Moscow’s capacity to project power is clearly limited. These opportunities and limitations form the parameters within which Soviet policy must operate.

In those Central American countries where the United States has been the backer and the perceived beneficiary of the *ancien régime*, anti-Americanism has all too naturally translated to pro-Sovietism. Nowhere has this been more true than in Nicaragua, where the United States created and backed Somoza’s National Guard for four decades. This factor helps explain the pro-Soviet bias of many Sandinista *comandantes*. The Nicaraguan government sought from the outset a special relationship with the Soviet bloc. Soviet generals paid a secret visit to Managua a month after the Sandinistas took power.<sup>5</sup> Subsequently a major Soviet and Cuban military security and intelligence role emerged during the Carter administration.

Just as Moscow did not create the Central American crisis, President Reagan did not create the Soviet problem in Central America. The latter is the residue of history, not of the policies of any particular administration. But Reagan administration policies certainly fulfilled the prophecies and vindicated the proclivities of the more dogmatic Sandinistas. (See the essay by Arturo Cruz Sequeira.)

Moscow’s chief strategic asset in Central America is the United States’ long backing of reactionary oligarchies and the legacy of anti-Yankeeism. Moscow’s second greatest asset is Cuba. Castro’s alignment with the Soviet Union in the late 1960s, largely due to erroneous American policies, has yielded rich military, political and ideological dividends for its superpower patron. Moscow’s influence in Latin America can now appear in the form of the Cuban David struggling against the American Goliath.

This alliance does not signify that there are no interesting differences in approach between Moscow and Havana. Some go on to argue that because

Cuban national interests differ from those of the Soviet Union the former is independent of the latter. However, Czechoslovak and Mongolian interests also differ from those of Moscow. But those leaderships have pursued Moscow's goals. Especially since 1970, objective ties of economic, political and military dependence and a major Soviet security and intelligent presence on the island have severely limited Cuban autonomy. Nonetheless, Havana appears to retain a certain margin of independence and may be seeking to expand it.<sup>6</sup>

There is some evidence that the Cubans have been interested in promoting a social democratic tendency in the Caribbean, via former Jamaican Prime Minister Michael Manley and previously via Grenada's late Maurice Bishop. Havana may even be serious when it speaks of a "social democratic stage" in the Central American revolution. These political overtures may be efforts to gain space vis-à-vis Moscow, although such overtures are not necessarily antithetical to Moscow. But one can speak with far more certainty of independent, even anti-Soviet, trends in the Central American left. (See the essay, "The Salvadoran Left," by Robert S. Leiken.)

While the complexity of the Soviet relations with the region's left suggests that an array of policy instruments other than force are available to the United States, it does not mean that the Soviet problem can be whisked away with economic and trade concessions. The Soviet-Nicaraguan relationship illustrates the depth and difficulty of the problem. This relationship has evolved under a curious paradox. Soviet "penetration" of Nicaragua has been promoted more eagerly by the Sandinista leadership than by Moscow. Managua has eagerly embraced Soviet foreign policy positions from Afghanistan, Poland and Kampuchea to strategic and intermediate nuclear force negotiations.<sup>7</sup>

Sandinista Nicaragua quickly began to sport the Soviet bloc division of labor familiar in some African and Asian countries. The East Germans specialized in communications, security and intelligence, the Cubans in party and military affairs, the Bulgarians in economic planning, the Russians in security, and so forth.

Since the early 1970s, Soviet strategy has been to downgrade economic ties with the Third World, in favor of footholds in the political, military, intelligence, and security spheres. While evidence is typically partisan and partial, according to diplomats, former Sandinista leaders, defectors from the security apparatus, and many observers, a similar process is underway in Nicaragua.<sup>8</sup> In addition, there are pronounced pro-Soviet proclivities within the Sandinista leadership. (See the essay by Arturo Cruz Sequeira.)

Managua's efforts have gone largely unrequited. Moscow has not attempted to alleviate Nicaragua's grave balance of payments crisis, offering only long term development aid, arms, and re-exported American grain. While the Sandinistas first covertly then overtly sought Soviet MiGs to counter-

balance Honduran air superiority, to this date Moscow has not delivered. Moscow has even avoided acknowledging Daniel Ortega's call for fighter aircrafts, and has carefully utilized intermediaries insofar as possible to deliver arms to Nicaragua. These have included not only Bulgaria, East Germany and Cuba, but non-bloc countries like Algeria and Libya.<sup>9</sup> The Soviets were "unusually restrained" when U.S. vessels exercising off Nicaragua queried Soviet ships en route to Nicaragua in the summer of 1982. Moscow clearly shied away from a confrontation with the U.S. in the Western hemisphere.<sup>10</sup>

The "global correlation of forces" which Soviet publicists found quite favorable during the 1970s, shifted against Moscow during the first year of the Sandinista government.<sup>11</sup> Resistance to the occupations of Afghanistan and Kampuchea; the challenge of Solidarity; the economic difficulties of Cuba and Vietnam; political friction with Third World allies such as Ethiopia and Angola; the movement of significant non-aligned countries like India, Iraq, and Algeria away from Moscow; the NATO resolve to deploy the Pershing and Cruise missiles and the American rejection of SALT II all darkened Moscow's international panorama. Domestically, the U.S.S.R. had been plagued by economic stagnation and poor harvests, a recurring succession crisis, problems of morale and materiel in the armed forces, and rising tensions among its national minorities. As a result, the Soviet worldwide offensive, with Cuba as its spearhead, came to a pause, if not a halt, in 1980-81.<sup>12</sup>

Another motive for Soviet caution may have been the Reagan administration's evident disposition to use force to shore up the American sphere of influence. In addition, Moscow's early enthusiasm apparently was dimmed by the repeated mistakes of the Central American revolutionaries: the failure of the "final offensive" in El Salvador, and the Sandinistas' economic, political and diplomatic errors.

The short-term Soviet danger—widely exaggerated by the Reagan administration—has receded. But the real Soviet danger in Central America is not short-term. According to Rothenberg there were 675 Costa Ricans studying in the U.S.S.R. and Eastern Europe in 1981. Costa Rica has been the exception in Central America, enjoying years of sustained economic growth and pluralist political stability. It has a peaceful pro-Soviet communist party and only an embryonic armed revolutionary movement. Yet, Costa Rica is also edging toward social and economic crisis. American overreaction to the short term Soviet threat could sow seeds to be harvested in the next generation or the next decade. Long-range Soviet efforts in the region, the legacy of anti-Yankeeism, the current Soviet presence in Nicaragua, and the ongoing nature of the Central American crisis lead to the conclusion that the Soviet problem in Central America is long-term and historical. (See the essay by Morris Rothenberg.)

The widening cycle of U.S. military exercises, the multiplication of U.S. advisors in Honduras, the establishment there of U.S. training bases for Hon-

duran, Salvadoran and Guatemalan troops, expanding U.S. military aid to El Salvador, the quickening activity in U.S. bases in Panama and the American-inspired revival of CONDECA (Central American Defense Council) have resurrected the familiar shadow of U.S. interventionism and the ingrained Latin reaction to it. (See the essay by Richard Millett.) To many Latins the precipitous Sandinista military build-up, if not their misplaced confidence in their "natural allies" in Moscow, now appears prudent. As Joseph Cirincione and Leslie Hunter clarify, the current Nicaraguan buildup is fundamentally defensive, and the Nicaraguan army poses no immediate threat to its neighbors.

Therein arises another curious contradiction. As the Soviet-Cuban threat recedes, and the threat to Nicaragua mounts, the clamor about the Soviet menace from Washington and from Central America grows louder, not softer. The Soviet-Cuban connection and Sandinista militarism and intransigence frighten its Central American neighbors—but for different reasons and in different degrees. The oligarchs fear the Sandinista revolution spells the end of their rule. The democrats are concerned that Sandinista authoritarianism jeopardizes prospects for democratic change by polarizing the region. Many in Honduras and Costa Rica (not to mention Panama and Venezuela) who made major sacrifices in the anti-Somoza resistance feel betrayed by subsequent developments in Managua. Even the guerrillas of neighboring countries, especially El Salvador, worry that the Sandinistas' persecution of their former allies jeopardizes their own necessary alliances with non-Marxists.

In Central America there is both a fear of Sandinista exported revolution as well as fear of revolution itself. Sandinista vaunts of "making war all over Central America," vows of "five or nothing" (meaning all of Central America revolutionary or none), their apparent support of terrorism in Costa Rica and Honduras, and their invectives against their neighbors have done nothing to clarify the distinction between exported revolution and genuine national revolutionary struggle. At the same time current U.S. administration policy seems intent on stoking the fears of both the Sandinistas and their neighbors.

## TWO FALSE PATHS

In the view of Arturo Cruz Sequeira, the Sandinistas' attempted "direct transition to socialism" has been an economic and political failure. While the policies of the Reagan administration and the prejudices of the Nicaraguan private sector have surely aggravated Nicaragua's economic problems, defenders of the regime acknowledge that Sandinista economic policies have contributed to the country's balance of payments crisis, mounting unemployment, widening scarcity of consumer goods, and a price squeeze on the peasantry. It has been argued that the failure to preserve the revolutionary

alliance with the middle class and small producers, as well as sectarian political and cultural policies, has polarized the country, led to disinvestment, falling productivity and wages, labor discontent, and an agrarian crisis.<sup>13</sup>

From the standpoints of the development of the "productive forces" and of "mass participation," the Nicaraguan revolution seems to contradict its own rhetoric. Nor has it provided the "pluralistic, democratic, non-aligned model" that the revolutionary leadership promised the Nicaraguan people and their international supporters. That leadership has earned a reputation for post-revolutionary conspicuous consumption and corruption.

But perhaps the most serious indictment of the Sandinista National Directorate is its polarization of the Nicaraguan people. As so often happens in Central America, this polarization has been encouraged and utilized by outside powers. There is now reason to fear that the poor judgement of the Sandinista leadership may return Nicaragua's "beautiful revolution" to the medieval factionalism and civil wars which characterized the pre-Somoza period. Still, some observers believe that the pragmatism demonstrated by the Sandinistas before the revolution may be reawakening under pressure. To what extent recent concessions are a result of pragmatic readjustment or another effort to seduce international opinion will be demonstrated by events.

The credibility gap in Sandinista rhetoric is surpassed by the distance between image and reality in "reformist," "democratic" Honduras. In 1980 and again in 1981 the Honduran people voted for civilian government, peace, and an end to corruption. They have been disappointed. Defense Minister General Gustavo Álvarez gradually has accumulated real power in the country. He has had himself elected leader of powerful civic organizations while "patriotic" Hondurans rush to name buildings and streets after him. He presides over the oligarchical group called APROH (the Association for Honduras). This group has gained control of the National University, teachers' colleges and associations, and has intimidated and bribed trade and peasant union officials. It has succeeded in dividing both traditional political parties. Democratic elements from all the political parties fear APROH will become the springboard for a *Somocista*-style Álvarez dynasty.

Álvarez has also created a special forces command for internal security, and a "National Security Council," dominated by the real decisionmaking power in Honduras — the military. On several occasions Álvarez himself has flouted the Honduran constitution as when he agreed, without congressional approval, to establish American training bases for Salvadoran troops in Honduras. Álvarez closely cooperates with the Nicaraguan *contras* and is widely believed to enlist them for kidnapping and torture inside Honduras. The defense minister's ascendancy is associated with a widening American political and military role in the country, not unreminiscent of the U.S. presence in Nicaragua in the early 1920s. Again, behind a language of "democracy," etc., America could be creating a military dynasty.

Honduran leaders seem to have democracy on their lips, but war on their minds. If the democracy of Honduras is America's standard, U.S. avowed support for democratization will appear to Central Americans as one more example of U.S. hypocrisy masking U.S. hegemonism. In Honduras democracy seems to have become a geopolitical concept. Now "democracy made in Washington" is providing ideological cover for a regional military pact against Nicaragua.

Four years into the Sandinista revolution, it is increasingly evident that neither the Nicaraguan nor the Honduran model is capable of meeting the region's needs. These needs are five-fold. Central America must return to the path of development, on which it was proceeding in the years of the Central American Common Market. Second, this path cannot repeat the polarizing and impoverishing development of the 1960s and 1970s. There must be development with equity. Third, for economic growth to occur, Central America needs a democratic form of government which permits the dynamic and productive social forces to participate fully in political life. That means a place for the middle class in Nicaragua, for the workers and peasants in El Salvador or Guatemala. Central American democracy may not—probably cannot—resemble Western democracy. Yet democracy need not necessarily rest on a multi-party system, as long as all sectors of society are represented (although this has not been the case in Nicaragua). As in El Salvador, or in Somoza's Nicaragua, elections alone can make a mockery of democracy. In Central America, those who own land govern it. If what counts is substance, not mere form, then democracy must be coupled with land reform.

Fourth, if Central America is to attain development, equity, and democracy, it cannot be a neo-colony or an arena of a superpower confrontation. Fifth, Central America's most pressing need is peace. War between Honduras and El Salvador rang the death knell for the Central American Common Market in 1969. A war between Honduras and Nicaragua would postpone Central America's development agenda indefinitely.

Central America is at an impasse. The models of pseudo-democratic reform and dogmatic, sectarian revolution are not meeting the needs of the region. They have led not to development, independence, and peace, but to economic dislocation, superpower clientage, and militarization. Honduras and Nicaragua presented as alternatives, sometimes appear rather as mirror images: Honduras of reform with repression, inequality and dependence; Nicaragua of revolution with repression, scarcity and dependence. Is there a third option?

## AN HISTORICAL COMPROMISE

A genuine alternative must involve an historical compromise among the

region's dynamic social forces and the displacement from power of the oligarchy.

The Salvadoran landed and financial elite, the main obstacle to Salvadoran development, continues to block land reform and the reallocation of resources. It siphons off the wealth of the country and external aid into American and Swiss bank accounts. The Salvadoran feudal rule via the system of *patronato* and *colonato* must be terminated if Salvador is to achieve development, equity and democracy.

The productive middle class does have an essential role to play throughout Central America. National capital in association with foreign investment and aid is an engine of growth and innovation. The technical and administrative expertise of the middle class is indispensable. But Central America cannot harbor the oligarchical capitalism of El Salvador which pays below-subsistence wages, harasses labor and peasant unions and is intolerant of political debate. If a broad spectrum of the left is not permitted to play a major role in countries like El Salvador, there will be no stability, necessary reforms will not be implemented, and economic growth will be unequal and politically destabilizing.

If the challenge for El Salvador is to have growth with distribution, Nicaragua's challenge is to have redistribution with growth. Nicaragua needs growth to consolidate its distributive gains. Both of these tasks can only be accomplished through public and private sector collaboration. These two sectors can only play their roles if they are working together and in some equilibrium. In the interest of both, mutual concessions are necessary. In the case of Nicaragua and El Salvador, negotiations are a necessary first step.

## BREAKING THE CYCLE

The United States has three basic policy options in Central America. It can seek, primarily through force, to revive American hegemony in the region, to achieve what Viron Vaky has called "an isthmus restored." It can unilaterally withdraw from the region. Or it can seek to promote and support a regional settlement.

A policy which seeks to fortify American hegemony would incur disproportionate costs in the short term while aggravating the problem in the medium—and long—term. Theodore Moran has sought to calculate concretely the economic and human costs of a deepening U.S. military involvement in El Salvador. He has also provided some estimates of American casualties in a direct U.S intervention in Nicaragua. The figures are admonitory. Moreover, there is no calculation of how long the resistance would last, where it would spread, where else the United States would then have to intervene, and whether such intervention would lead to new rounds of anti-American

upheavals in the future. Other essays—especially that of Viron Vaky—stress the collateral costs to U.S. domestic consensus, to U.S.-Latin America relations, with our European alliances, and around the world. Morris Rothenberg suggests the benefits accruing to Moscow from a fresh example of imperialism.

Walter LaFeber believes that each round of U.S. intervention has cost far more in treasure, in lives, in time, and internal consensus than the last. He affirms that such policies not only have failed to stabilize Central America, but the reaction against them has been on a wider and more global scale.

According to its proponents, an increased U.S. military involvement in the region would be accompanied by its counterpart—the “economic shield.”<sup>14</sup> This too, as LaFeber suggests, is nothing new, and in the past the “economic shield” has inevitably served the “military shield”—with security considerations prevailing and economic development and reform secondary.

Viron Vaky argues that the security priority has never been more predominant than today. Reagan administration economic programs—such as the Caribbean Basin Initiative (CBI), while potentially constructive—have been security motivated.

Can an American administration provide new “shields,” achieve—in the late Salvadoran Archbishop Romero’s ironic phrase—“reform with repression”? (See the essay by Christopher Dickey.) American efforts to rein in the abuses of the Salvadoran military and the death squads do not bode well for such a policy.

Among the richest ironies of the March 1982 Salvadoran election, intended to legitimate a centrist, reformist regime, was the emergence of Roberto d’Aubuisson’s ultra-right ARENA as a power sharer, and General José Guillermo García as the protector of the reform process.

With the eclipse of the Christian Democrats, General García replaced Napoleón Duarte as the American point man in El Salvador. García, realizing that continued U.S. assistance depended on preserving a modicum of the reforms, resisted the counter-reform efforts of the oligarchy, led by Roberto d’Aubuisson. Within the army García relied on a handful of cronies from his own and allied factions. García’s policies and his cronies’ military passiveness were major factors prompting Colonel Ochoa’s rebellion in January 1983. Ochoa’s rebellion fell narrowly short of an intramural armed conflict. For this he was “disciplined” with a coveted post in Washington. By the fall, García had been removed from command, his successor, the American embassy’s favorite, General Vides Casanova, had been stripped of power, and Ochoa’s faction was in the driver’s seat. The outcome of the whole episode was that America’s main allies, in a policy of repression with reform, Napoleón Duarte, and Generals García and Vides Casanova were reduced first to impotence and then to irrelevance.

A rhetoric of reform has been accompanied by the resumption and

expansion of the death squads. Meanwhile, the war is farther from a conclusion than ever. By December, the administration was again striving to recapture the initiative, get Duarte elected and the death squads to hibernate. The cycle seems endless. Millett's and Dickey's observations about the resistance of the Central American military establishment to American pressures and blandishment have been amply underscored. The historical record warrants deep skepticism about U.S efforts to "manage" reforms in Central America.

"Reform with repression," the "two shields" policy, is unworkable and costly. It is unworkable because American will—at best of short-term duration when it comes to foreign involvement, especially in Central America—cannot reform the Salvadoran military. Reform with repression will continue to put the United States in thrall to the Salvadoran right which will "obey" but not "comply." Pursuing the chimera of reform with repression the United States will continue to produce larger and more deeply anti-American and pro-Soviet revolutionary movements.

Cirincione and Hunter indicate that the effort to restore U.S. hegemony in the region will ineluctably involve direct U.S. military intervention. Despite increases of U.S. military aid, a wider role for U.S. military advisers, and a vastly expanded training program for Salvadoran soldiers, the Salvadoran army is further from defeating the guerrillas. The administration has sometimes argued that this failure is because the "source" of guerrilla success is Nicaragua. While there is considerable reason to question that assertion, Cirincione makes clear that, short of direct massive U.S. military involvement, the Sandinista "cancer" cannot be extirpated. Combining the Guatemalan, Honduran and Salvadoran armies will not do the job. As Richard Millett points out, even to get these armies to collaborate continues to be extremely difficult. Guatemala's recent retreat from CONDECA illustrates the problem. Even should that obstacle be overcome somehow, Cirincione notes, how ill-suited these armies are for invasion. According to Millett, at best CONDECA would serve only as symbolic and political cover for U.S. troops, something like the role of the organization of Eastern Caribbean States in the Grenada invasion.

Cirincione, Hunter and Moran suggest that the most likely result of U.S. intervention would be a long, enervating, and costly guerrilla war. But, in the very unlikely event that such an operation proves successful and short, what would "success" signify? At best America would be perpetuating the cycle of U.S. intervention, popular resistance, and revolution. This cycle will not be broken by a policy of "reform with repression." We have seen too often how well the Central American elites have learned to resist reform while appearing to embrace it.

"Reform with repression" is also unworkable and costly at home. I.M. Destler suggests that a policy of restoring the isthmus will sharply divide the

American public. With the right clamoring for the scalp of those who have almost "lost Central America," and the left organizing against the war, the United States could experience the worst of the McCarthy and Vietnam periods combined.

According to Leonel Gomez, if the Central American conflict widens, we can expect more "feet people," waves of immigrants fleeing war, misery, revolution and death squads. He fears that some expatriot "feet people" residing in the United States may collaborate with the Central American revolutionary groups in terrorist reprisals in the United States. Then we might be confronting bombs not left in the lavatories of public buildings at night but in the subways at midday.

In reaction to this grim scenario there are those who advocate a diametrically opposed policy approach. Declare Central America not to be a "vital interest" and withdraw. (See the essay by I.M. Destler.)

Cirincione and Hunter show that the national security danger, though exaggerated, is not a figment of the American right's imagination. Cuba is already a valuable asset in the context of a NATO/Warsaw Pact conventional war. A capacity to preposition armor, planes, and troops on the Central American isthmus significantly supplements Cuba's modest air and sea lift capability. The United States has legitimate security interests in the Caribbean basin and Panama Canal region. But a distinction must be made between legitimate national security concerns and hostility to social movements opposed to the Central American status quo and determined to exercise foreign policy independence.

Some draw this line between the domestic and the external and with the chalk of "Finlandization." The Sandinista leadership could do as it pleased domestically, while coerced to pursue a Finlandized foreign policy "sensitive to the interests of the neighboring superpowers."<sup>15</sup> While the Sandinistas might harbor pro-Soviet convictions and even erect a tropical totalitarianism, as long as this were kept to Nicaragua, it would not warrant U.S. armed hostility.

Although Finlandization is an attractive option, it is vulnerable to objections from opposite sides of the political spectrum. It is a form, albeit mild, of what might be called "backyardism." Should proximity to a superpower obligate nations to forfeit pieces of their sovereignty? Finlandization is only acceptable if redefined to signify the pursuit of foreign policy independence. But then the term "Finlandization" could be exchanged for "Mexicanization," insofar as our Mexican neighbor has for decades pursued a foreign policy quite independent of that of the United States.

However, there is another objection to "Finlandization." What guarantee is there that a Sandinista leadership, which sees its fate tied historically to that of the Soviet Union, will honor agreements to de-Sovietize foreign and military policy once U.S. attention is no longer riveted on the area? While

there is much to recommend a policy which lays stress on the West's economic strengths, such a policy might founder on the anti-Americanism and pro-Sovietism of the Sandinista leadership.

That might be a risk worth taking. But in Central America co-existence among different political and social orientations have been the rare exception. Finlandization could lead to the Balkanization of Central America. Given Central America's history and proclivities as a nation divided, it may not stay antagonistically divided for long. The danger is that Finlandization would lead to regional war. By putting the lid back on the boiling pot, Finlandization could simply return us to our original dilemma: restoration of American hegemony or Sovietization?

However, a formal Nicaraguan guarantee of genuine non-alignment should be welcomed and could be a useful step forward, especially if as part of a process leading to an historical compromise.

## RECIPROCAL AND REGIONAL NEGOTIATIONS

Administration spokespersons have argued that there is "symmetry" between the situations in El Salvador and Nicaragua. They assert that symmetry legitimizes covert aid to Nicaraguan insurgents, and "free elections" as a solution for both countries.<sup>16</sup> The Achilles' heel of the administration's polemic is that symmetry can justify power-sharing negotiations as well.

In fact, the cases of El Salvador and Nicaragua are not symmetrical, though they are analogous. Both countries are polarized, but they are polarized in different ways. In El Salvador the polarization is vertical—poor versus rich. In Nicaragua it is horizontal, with pro- and anti-Sandinista workers, businessmen, peasants, and clergy. In both countries there is a civilian, as well as an armed, opposition. In Nicaragua only a part of the civilian opposition has been banned, but the rest of it is harassed systematically. There is an opposition press, but it has been heavily censored. Civil liberties (such as freedom of speech, assembly, unionization, etc.) have been curtailed on the grounds of war emergency. In El Salvador the civilian opposition is in exile, there is no daily opposition press, and civil liberties are severely circumscribed. Human rights abuses exist in both countries, but, except for the Indians on the Nicaraguan Atlantic coast, they are on an incomparably larger and bloodier scale in El Salvador.

The Nicaraguan insurgent movements are of recent vintage, and they have held territory only in the south. There are more armed insurgents in Nicaragua, but they have less logistical support among the population. Both movements are linked to foreign supporters, but in the case of Nicaragua the support has been far more critical (with the important exception of Eden Pastora's movement in the south). Nonetheless, internal contradictions are

responsible for the existence of large bodies of combatants willing to fight against the regimes. As Richard Millett points out, the base of even the U.S. trained and equipped FDN, the most dependent of all the insurgent movements, is made up of "peasants and shopkeepers" with grievances against the government. (See the essay by Richard Millett.)

Both countries are aligned in varying degrees with one of the superpowers. Many would characterize the American embassy and military advisers in El Salvador as "neo-colonial." As already seen the Soviet bloc presence in Nicaragua has become a major one.

The sources of legitimacy of the two regimes, formally at least, are quite different. The Salvadoran government derives its legitimacy from the 1982 elections. However, many informed observers question their validity as a test of popular will for a variety of reasons. (See essays by Dickey, Farer and Leiken.) Many contend that the source of power in El Salvador remains what it had been—the armed forces. The Nicaraguan government derives its power from the Sandinista revolution. Still, many observers argue that the Sandinistas had no ideological and political mandate when they came to power; that most Nicaraguans were unaware of, and would not have supported, the Sandinista ideological, political and economic program. They would argue that with the rupturing of the original coalition that brought the Sandinistas to power, and with the Sandinistas' monopolization of the military resources of the country, real power once again lies with the military. However, most would concede that the Sandinistas are closer to the original source of legitimacy, the revolution, than the Salvador regime is to any popular mandate.

These similarities and differences call for solutions which are similar but not "symmetrical." In the case of El Salvador, as Thomas Farer argues, there needs to be a power-sharing arrangement, a transitional governmental mechanism in which the left would be incorporated and the guerrilla army integrated. However, no stable and viable economic and political system will emerge in El Salvador that does not constrict the oligarchy. A negotiated settlement would remove from power this grouping responsible for death squads and for the landlord system.

In Nicaragua the aim of negotiations should be to broaden the government and the political life of Nicaragua. This task does not require the displacement of a social class or political elite. That was achieved by the revolution which brought down Somoza and his cohorts. Negotiations in Nicaragua would seek to bring about the reconciliation of the revolutionary alliance. They need not be explicitly power-sharing negotiations, but they should involve negotiations among peers seeking consensus—not concession decreed from on high. Negotiations would also bring about the reintegration of the armed opposition, and of former national guardsmen—those who

have not committed crimes—into Nicaraguan civil society. (It must be added that if the Sandinista leadership does not choose to reach a consensus with the opposition—the church, the press, the dissident unions and political parties, the Indians—it may well find itself eventually obligated to accept power-sharing.)

Negotiations in both countries are not only individually necessary, they are linked. For example, as Tom Farer asserts, negotiations in El Salvador would help put “political and psychological pressures on Nicaragua . . . to negotiate a specific program for opening its politics. . . .” Furthermore by lowering the danger of external aggression, negotiations in El Salvador would make it easier for the Sandinistas to broaden their political system. To the extent that the United States showed itself prepared to accept accommodation in the region, moderate elements in Nicaragua would be strengthened. By the same token, negotiations in Nicaragua would lessen the fears of Salvadoran moderates about negotiations in their own country by demonstrating that a left-led government can accommodate other political forces. Similarly, negotiations in Nicaragua would reduce Salvadoran fears about Nicaraguan interference in their internal affairs.

### THE BENEFITS OF NEGOTIATIONS

Nicaragua suffers from a grievous international commercial and financial deficit. This deficit is a result not only of deteriorating international terms of trade, but from the shrinking volume of Nicaraguan exports due to falling productivity. Among the main causes of this situation are the distrust of domestic and foreign investors, the insurgents' attacks on the economy, an inefficient state sector, and the emigration of hundreds of administrators and technicians. Negotiations in Nicaragua could alleviate all these problems. By restoring business confidence, returning inefficient nationalized companies to their owners and encouraging the return of middle class administrators and technocrats, negotiations would lead to increased productivity, thus reducing the shortage of consumer goods and improving Nicaragua's export picture. This recovery would narrow the balance of payments gap, reverse the trend of falling wages and rising unemployment in the urban sector, and of falling prices in the countryside. By reducing Nicaragua's external debt, the country would become more independent. These measures would not be inconsistent with “socialist principles” as the Sandinistas could recognize in reviewing the experience of the Soviet New Economic Policy in the 1920s, or that of the Hungarians and the Chinese more recently.

Negotiations with the Indians could bring peace to the war-torn Atlantic coast. By collaterally negotiating an end to the war with the *contras*, or stripping them of any legitimate reason to fight, the Sandinistas could help rebuild

the national unity essential to confront the economic crisis that Nicaragua and all Central America faces.

Nicaragua must have economic development to realize the redistributive gains of the revolution. The government has revamped and popularized medical services, building clinics in hitherto unattended slums and villages. Yet for lack of foreign exchange these clinics are frequently without medicine. There has been a massive literacy campaign, yet higher and secondary education is in crisis because of constant "mobilization," the polarization of the student body, the loss of teachers.

Nicaraguans will have to choose between two futures: a repetition of the cycle of civil war which characterized Nicaraguan history until Somoza, or mutual concessions for the sake of national unity and progress.

The case for negotiations in El Salvador is made by Tom Farer. There can be no growth and development in El Salvador until the war is ended. El Salvador has the potential to become the industrial heartland of Central America.

By lowering tensions in Nicaragua and El Salvador, negotiations in Nicaragua and El Salvador would create conditions for the re-emergence of the populist-reformist trend within the Honduran military. These officers would ally with now latent but numerous liberal and progressive elements in Honduran society. Honduras would be able to realize the promises of its elections. The United States could withdraw militarily from Honduras, and convert its military aid into economic assistance.

Peace inside Nicaragua and El Salvador could restore conditions for economic growth in Costa Rica by reassuring its panic-stricken bourgeoisie. Although Costa Rica is often cited as a bastion of democracy, growth and stability, that country has been moving toward the brink of social upheaval over the last few years. Land redistribution may now be a necessity, and recently spontaneous urban demonstrations have erupted.

The conflict in Guatemala will not be resolved by negotiations. However, negotiations elsewhere would have the effect of quarantining Guatemala's internal conflict. The greater danger of it becoming regionalized or becoming part of a regional war would thus be removed.

Most important of all, political negotiations would clear the way for reviving the Central American Common Market. The economies of Central America are highly vulnerable to external forces. Only by cooperating and utilizing their potential interdependence can they reduce this vulnerability and achieve self-sustaining growth. The tiny markets of individual Central American countries can only sustain the earliest stages of industrialization.

Economies of scale and specialization would be necessary and feasible in the context of a revived Common Market. Nicaragua, with its vast expanse of rich soil, is the natural grainery of Central America; El Salvador, with its abundant and skilled working class is a fitting manufacturing complement to Nicaragua. As Feinberg and Pastor emphasize, during the Common Market years a good measure of growth, industrialization, and specialization was achieved. The market permitted labor mobility throughout Central America helping to offset individual weaknesses.

Central Americans must solve the problems of Central America. They cannot be resolved either by the United States or the Soviet Union. Honduras and El Salvador are demonstrating today what the Alliance for Progress demonstrated in the 1960s: U.S. assistance cannot be the decisive factor for Central American development. Nicaragua has demonstrated the futility of depending on the Soviet bloc for development. In the wake of a political settlement, foreign economic assistance and tariff concessions can play a significant complementary role.

### THE NEGOTIATING VEHICLE

Just as Central Americans, and not the superpowers, must resolve their own crisis, their regional neighbors are the best qualified to be the intermediaries. The numerous and varied regional efforts at mediating and negotiating have crystallized in the Contadora group (Columbia, Mexico, Panama, and Venezuela). They have received vigorous support from the UN Security Council.

Contadora moved by fits and starts through 1983. Only recently has it been acknowledged that for Contadora to succeed it cannot shelve the question of internal negotiations. Until now, the Mexicans have blocked discussion of negotiations in Nicaragua, and the United States has done the same vis-à-vis El Salvador. Some rapprochement between the Mexican and U.S. position is necessary if Contadora is to make its indispensable contribution to a regional settlement.

Relations with Mexico are becoming—strategically as well as economically—the cornerstone of U.S. Latin American policy. Between the two countries there are unresolved historical issues but also abundant and profound mutual interests. The United States must work together with Mexico in Central America.<sup>17</sup>

The Sandinista leadership is now aware that it cannot survive by relying on Soviet bloc political, military, and economic backing. Sandinista domestic and foreign policies and U.S. hostility have reduced Nicaragua's broad regional orbit of support basically to Mexico. Thus, Mexico is in a unique position. Nicaragua depends on Mexican oil and needs Mexican political sup-

port. Without Mexico its last vestiges of support inside the Socialist International could crumble. But Mexico will take no initiative with the Sandinistas if this is to lead to a restoration of U.S. hegemony in the region. The Mexicans believe that such a situation would be inherently unstable, dangerous and inimical to their national interests. Only if the United States could accept a compromise in the region, beginning with El Salvador, would Mexico be likely to help out with Nicaragua.

Reciprocal negotiations in Nicaragua and El Salvador are the most secure foundations for durable, regional arms control negotiations. But proposals for limiting arms flows, prohibiting foreign bases and advisers, etc., should not however, be rejected out of hand until internal negotiations have been completed. As Viron Vaky states, such agreements can be a confidence-building first step towards pacification of Central America.

Nicaragua has recently shown some willingness to negotiate seriously Contadora's agenda requiring a ban on foreign troops, facilities, military bases, and advisers, the elimination of arms traffic, and of armed interference in neighboring states. They now profess to accept Contadora's principle of "free access of the various political currents to the electoral process." Lately it has been Honduras and El Salvador which have been applying what some Latin diplomats are calling "obstructionist tactics." These diplomats believe that it is the United States which has been encouraging Honduran and Salvadoran intransigence. Their feet are said to grow cold at any prospect of the withdrawal of U.S. advisers, equipment, facilities, and bases.<sup>18</sup>

The biggest incentive for negotiations in Nicaragua is not the use of force against the Nicaraguan regime from bases in Honduras, but the promise of negotiations in El Salvador. That carrot will be far more effective, far safer and more humane, and far less costly, than the stick of intervention.

It now appears quite possible that Havana could support this historical compromise. Since the failed "final offensive" in El Salvador, the Cubans have been urging FMLN groups to negotiate with the government. They have taken the extraordinary step of inviting one of the Nicaraguan insurgent groups (Eden Pastora's ARDE) to Havana to discuss the prospects of a negotiated settlement. For the past two years Cuban officials have been saying privately and publicly that a radical revolutionary solution is presently ruled out in Central America, and what is necessary is a "social democratic" solution. Cuban support for negotiations in Nicaragua as well as in El Salvador, and Cuban analyses of the region suggest that their conception of a "social democratic stage" in Central America is not inconsistent with an "historical compromise." Cuba does not appear to represent the main obstacle to such a settlement.

## U.S. REALITIES (INTERNATIONAL AND DOMESTIC)

Is Central America's historical compromise also viable for the United States?

The road to a U.S. consensus on Central American policy could be cleared by an historical compromise. However, as stated at the outset, a policy can win a consensus without being sound. How does a compromise square with U.S. interests in Central America?

Several authors in this volume, particularly Cirincione, Hunter and Leiken, state that U.S. security interests in Central America are jeopardized by strategic alignment with the Soviet Union, but not by leftist power (or power-sharing) as such. History has shown that there is no obligatory relationship between a socialist internal regime and pro-Soviet external policies. Socialists, even expressly Marxist-Leninist regimes, exhibit a variety of attitudes toward Soviet expansionism — from adamant resistance, as in the case of Yugoslavia and China, to collaboration and clientism, as in the case of Bulgaria and Vietnam. Third World revolutionary movements exhibit a similarly wide spectrum. To construct a successful anti-Soviet policy, U.S. policymakers must distinguish between Soviet expansionism and Third World revolution, Sovietism and Socialism.<sup>19</sup>

One must examine specifically the regime or movement in question to determine if its brand of socialism (or of capitalism for that matter) is strategically aligned with the Soviet Union. Leiken argues that the widely unappreciated policy differences between the Sandinistas and the Salvadoran guerrillas illustrate this distinction.

The pro-Soviet bias of much of the Sandinista leadership (and of some of the Salvadoran left) is in good measure the consequence of a bad history. Unless we wish to produce in our own backyard a seething replica of Eastern Europe and Afghanistan, U.S. policy must seek to accommodate this reality. From the point of view of short-term U.S. security interests, the United States can and should coexist peaceably with Sandinista Nicaragua.

The current unfavorable swing in the "global correlation of forces" and in the regional balance has diminished the short-term threat of Soviet-Cuban penetration in Central America. The Reagan administration has exaggerated this short-term threat, at the expense of forging a common policy with Latin America. As to the more serious long-term Soviet danger, the disposition of Latin Americans to resist Soviet inroads will be profoundly influenced by the United States capacity to accept genuine non-alignment, to accept a third option between American and Soviet hegemony.

Viron Vaky has pointed to some of the weaknesses in the argument that U.S. "credibility" rests on the maintenance of U.S. hegemony in Central America. If the U.S. does not act to prevent Soviet penetration in its own "backyard," what signal will be sent to U.S. allies elsewhere?

The triumph of the Sandinistas in the American "backyard" in 1979 was greeted by many as a new height in the cresting movement for Third World national independence. But since the Soviet invasion of Afghanistan later that year, "backyardism" has become an increasingly powerful countertrend in world history. Moscow has fortified its bloody occupation of Afghanistan, and helped to impose martial law in Poland. The United States has organized a "secret war" against the Nicaraguan regime and has invaded Grenada.

Yuri Andropov, in an interview in *Der Spiegel* (April 1983) specifically compared U.S. interests in Nicaragua to Moscow's in Afghanistan, "our corner of the world."

Andropov, as have other Soviet officials on other occasions, was suggesting a trade-off involving mutual respect for "corners of the world." (The Tass version of this interview suppressed the phrase "our corner of the world." That flagrant acknowledgement of the sphere of influence orientation of Soviet policy was presumably in embarrassing contradiction with its avowed support for national self-determination.) Similarly, geographical proximity allows Americans to regard Central America as their "backyard."

Backyardism condemns those countries located in the vicinity of a superpower to limited sovereignty. The peoples of Afghanistan and Eastern Europe, of Mexico and Central America and the Caribbean, are not the only actual or potential victims of such an arrangement.

Backyards tend to expand. For Hitler "national security" could only be assured by world domination. Many suspect this is also true for Moscow today. The logic of backyardism ultimately jeopardizes national self-determination and non-alignment everywhere. That kind of superpower security will lead to global insecurity.

## CONCLUSIONS

I.M. Destler, in his study of the search for the "elusive consensus" in Washington D.C., concludes that "getting in deeper [in Central America] will not bring us together" at home. According to a recent ongoing study of opinion polls, there is a profound ambivalence in domestic attitudes towards Central America.<sup>20</sup> Most Americans agree with the president that Soviet activities in the region represent a threat to American national security. But pluralities or majorities oppose nearly all of the Reagan administration countermeasures, including covert action, joint military exercises in Honduras, military equipment sales in El Salvador, and a U.S. naval blockade. Americans fear the "loss of Central America," but they also oppose direct U.S. intervention to "save it."

Grenada has not rescued American policymakers from this dilemma. While according to public opinion polls, the president himself gained personally from the invasion (his approval rating was restored to its "honeymoon level"), even after his persuasive televised defense of the Grenada action, pluralities of Americans have "no confidence" in Reagan's "handling of crises in foreign policy" and believe that he is "trying to do too much with his armed forces overseas."<sup>21</sup> After the speech more Americans than ever before (60%) opposed policies designed to help overthrow the government in Nicaragua.

This ambivalence in public attitudes, combined with congressional opposition and resistance within the administration itself, has paralyzed administration policy. (See the I.M. Destler and Barry Rubin essays.) Administration hardliners would prefer stronger measures, but public attitudes, and the contemplated costs of such measures obligate them, in Viron Vaky's phrase, to go "round the mulberry bush," condemned to a netherworld of half-measures.

The U.S. public will be satisfied with a policy that opposes Soviet expansionism, but only if it is non-interventionist. The way out of this dilemma could be the linkage of Salvadoran and Nicaraguan negotiations.

It is obvious that it would be far easier to sell Salvadoran negotiations in Washington with the Sandinistas negotiating in Nicaragua. It is difficult to imagine Washington approving negotiations in Salvador without some major internal concessions on the part of the Sandinista government. But it would also be far easier to get liberal support for U.S.-backed negotiations in Nicaragua if these were linked to conservative support for negotiations in El Salvador.

As the guerrillas expand their "zones of control" and as the Salvadoran armed forces continue to prove ineffective despite bigger and quicker fixes of U.S. aid and training, U.S. policymakers will approach a crossroads: negotiations or direct intervention. U.S. military intervention would only regionalize war, making it ever more costly. U.S. intervention will not lay the basis for peace and stability in the region, it will not even guarantee ultimate victory. At best it will only perpetuate and deepen the tortured cycle of Central American history and of U.S.-Central American relations. Breaking that cycle requires U.S. acceptance of negotiations in El Salvador.

Support for negotiations in El Salvador is our most effective and least costly bargaining chip with Nicaragua, and it would clear the way to cooperation with Mexico. With Mexican support, and given Nicaragua's economic and military problems, there would be sufficient leverage to move Nicaragua into serious and sincere negotiations with its opposition. U.S. support for negotiations in El Salvador would enable Contadora to realize its objective of promoting a democratization of the region. Only such a democratization, but on Central American not U.S. terms, could avoid the Balkanization of Central America. Moreover, negotiations in El Salvador and Nicaragua are the only way to deal with the problem of the reintegration of the *contras*.

and the "feet people." Democratization rather than Balkanization is the best guarantee for realizing Contadora's agenda for regional accords with respect to arms flows, military advisers and bases.

The negotiating route is the only one that leads toward the political stability required for a successful "Marshall Plan." Reconstruction can begin only when the war ends. "Reform with repression," Marshall Plan with war, a policy of "two shields," are condemned to plugging holes in a crumbling dike—the regionalization of what we now do in El Salvador. The American people no longer have the luxury of supporting an aid program that cannot promise results.

After a political settlement, productive social forces in Central America could take the initiative. This would make it more likely that U.S. aid money would be invested constructively and not end up in exile bank accounts. It is the only way U.S. aid programs could help to break the cycle.

But continued and deeper U.S. involvement will perpetuate the cycle, divide the United States, divide Central America, increase instability, and provide long-range opportunities for the Soviet Union—a struggle of hegemonies regionally and globally, a widening cycle of destruction, dependence, dictatorship, rebellion and war.

As Viron Vaky and Howard Wiarda stress, something has been wrong not only with our policies but with our thinking. We have been guilty of an "ethnocentric," "parochial" approach. We can exchange arrogance for humility by doing the region the honor of seeing it in its own time and place. Central America is not Vietnam or Angola. Its crisis cannot be understood by analogy or through modish clichés. To develop an effective policy and win a consensus for it we need to take a fresh look at Central America. This could be a start toward breaking the cycle.

## NOTES

1. Woodward, Ralph Lee, Jr., *Central America: A Nation Divided* (New York: Oxford University Press, 1976)
2. Though it is commonly associated with Somoza, Roosevelt's epithet was originally aimed at Rafael Trujillo, the military ruler of the Dominican Republic from 1930 to 1961.
3. Reynolds, Clark, "Fissures in the Volcano? Central American Economic Prospects," in *Latin America and World Economy: A Changing International Order*, vol. 2, ed. Joseph Grunwald (Beverly Hills: Sage, 1981), p. 209.
4. William R. Cline and Enrique Delgado, eds., "Economic Integration in Central America" [study sponsored jointly by the Brookings Institution and the secretariat of Economic Integration of Central America (SEICA)] (Washington, D.C.: Brookings Institution, 1978), p. 189.
5. Miguel Bolanos Hunter, a Sandinista defector who had worked in the internal security apparatus, claims that within weeks of the Sandinista victory he was sent to the airport in Managua to transport five Soviet generals. (Seib, Gerald and Walter Mossberg, "Arming a Region: Central America Grows Even More Militarized as Superpowers Vie," *Wall Street Journal*, August 17, 1983, p. 1.)

6. For an extended discussion of Soviet-Cuban-Caribbean relations see Robert S. Leiken, *Soviet Strategy in Latin America*, The Washington Papers, No. 93, (New York: Praeger, 1982), chapters 5 and 6.
7. By going to such lengths to please Moscow (and to vex Washington) the Sandinistas sometimes have embarrassed the Soviets and themselves. Thus, apparently, without ever having been asked by Moscow, Defense Minister Humberto Ortega told a *New York Times* reporter (Oct. 4, 1983) that Nicaraguan national security justified his seriously examining a proposal for installing Russian SS-20s in Nicaraguan territory. After the Soviet ambassador appeared on American television to deny that Moscow had made such a proposal, Head of State Daniel Ortega at length categorically denied that Nicaragua had ever entertained the notion.
8. On Soviet-bloc penetration of the Nicaraguan internal security military and political apparatuses, see the transcript of the "Face-to-Face Dinner Discussion" with Eden Pastora Gomez, Commander of the Democratic Revolutionary Alliance (ARDE) *contra* forces at the Carnegie Endowment for International Peace, Nov. 14, 1983, and Don Oberdorfer and Joanne Omang, "Nicaraguan Bares Plan to Discredit Foes," *Washington Post*, June 1983, p. A1. Unpublished paper by Peter Clement, "The Soviets in Nicaragua: Cultivating a New Client," prepared for the annual Conference of the American Association for the Advancement of Slavic Studies, Oct. 21-25, 1983. Richard Halloran, "U.S. Reports Sharp Rise in Arms Aid to Nicaragua," *New York Times* Aug. 2, 1983.
9. Unpublished paper by Peter Clement, "The Soviets in Nicaragua: Cultivating a New Client," prepared for the Annual Conference of the American Association or the Advancement of Slavic Studies, Oct. 21-25, 1983, p. 11.
10. Doder, Dusko, "Moscow Criticizes U.S. for Following Vessel Headed for Nicaragua," *Washington Post*, August 12, 1983, p. A1.
11. See Robert S. Leiken, *Soviet Strategy in Latin America*, pp. 11-14, for a discussion of the offensive undertaken by the Soviets in the favorable circumstances of the 1970s' "global correlation of forces."
12. See the essay by Seweryn Bialer, "The Harsh Decade: Soviet Policies in the 1980s," *Foreign Affairs* (Summer 1981), pp. 999-1020.
13. For a cogent presentation of this argument see the forthcoming essay by Arturo Cruz Sequeira, "Nicaragua: A Revolution in Crisis," *SAIS Review*, Winter 1984.
14. The concepts of economic and military shield were originally introduced in May 1983 by Senator Henry Jackson while proposing to the Senate the establishment of a bi-partisan commission to "help build the necessary consensus on a long-term, comprehensive policy" for Central America. (*Congressional Record*, Vol. 129, No. 65, May 12, 1983). These terms have subsequently been adopted and frequently employed by administration spokesmen, including George Schultz, Jeane Kirkpatrick, and Henry Kissinger.
15. Jakobson, Max, "Substance and Appearance in Finland," *Foreign Affairs* (Summer 1980). Jakobson has eloquently conveyed what "Finlandization" entails for a nation: "The Finns deny themselves the luxury of making emotionally satisfying gestures. . ." Finland tends to play down its foreign policy differences with the Soviet Union.
16. This version of the "symmetry" concept is developed in the following sources: Phillip Taubman, "Are U.S. Covert Activities Best Policy on Nicaragua?" *New York Times*, June 15, 1983, p. A22. "Elliot Abrams, "El Salvador: A Matter of Principle," *Los Angeles Times*, March 22, 1983 p. II-5; Jeane Kirkpatrick, "UN 'Mugging' Fails," *New York Times*, March 31, 1983, p. A20; Bernard Weinraub, "Reagan's Policy in Central America," *New York Times*, January 25, 1983, p. A1; "Pros, Cons, and Contras," *Time*, June 16, 1983, pp. 16-18.
17. For a more comprehensive discussion of this subject see Robert S. Leiken, "Bitter Wine," *The New Republic*, February 7, 1981, pp. 15-18.

18. See the "Consolidated Twenty-One Point Declaration" of the Fourth Joint Meeting between the Contadora group and the Central American foreign ministers, September 10, 1983; also see Stephen Kinzer, "Honduras Said to Snag Latin Peace Bid," *New York Times*, December 15, 1983, p. A3; and Loren Jenkins, "Peace in Central America Remains Elusive for Contadora Group," *Washington Post*, December 25, 1983, p. A20.
19. For further elaboration of these ideas see Robert S. Leiken, "Eastern Winds in Latin America," *Foreign Policy*, No. 42 (Spring 1981), pp. 94-113; and Leiken, *Soviet Strategy in Latin America*.
20. These conclusions are drawn from the work in progress on public attitudes towards Central America by George Moffett, Senior Associate at the Carnegie Endowment for International Peace.
21. Citations are taken from an unpublished study of Gallup, Roper, CBS, ABC and other polls, George Moffett, *ibid.*

The CHAIRMAN. Thank you very much indeed.  
Mr. Marks.

**STATEMENT OF RUSSELL E. MARKS, JR., PRESIDENT,  
THE AMERICAS SOCIETY, NEW YORK, N.Y.**

**Mr. MARKS.** On behalf of the Americas Society and its affiliates, the Council of the Americas and Caribbean/Central American Action, I would like to thank the committee very much for asking me to testify today.

Let me explain that the Council of the Americas is an association of 185 U.S. corporations with interests and investments in Latin America and the Caribbean, representing about 90 percent of total U.S. direct investment in the region. The mission of the council is to promote private enterprise as a positive force in the development of the hemisphere. Caribbean/Central America Action, funded by 70 U.S. business firms, seeks actively to match U.S. potential investors with opportunities in the Caribbean Basin.

We believe that local private enterprise and foreign investments have important roles to play in the revitalization of Central America's economies, and therefore in securing the long-term stability and prosperity of the region.

Mr. Chairman, the members of the National Bipartisan Commission on Central America reached consensus on two important points. These are: One, that Central America is important to U.S. interests—in the Commission's words, "It makes a particularly urgent claim"—and two, that a responsible and long-term U.S. commitment can make a difference.

The recommendations made by the Commission have already been subject to harsh criticism. One argument is that the U.S. is throwing good money after bad, that the aid requirement is endless and offers little return in the form of progress. This might be true when assistance is meted out on a partisan basis, almost insuring that commitments cannot be kept from year to year.

At the present time, aid to Central America is sufficient only to maintain the current stalemate. The aid and commitment behind it are not sufficient for the United States to secure real change in the region and to support those sectors that deserve our consistent attention.

For this reason, we believe that a major long-term effort can be effective. The recently enacted Caribbean Basin initiative offers great opportunity, but in order for that opportunity to be realized it must be supported with economic assistance sufficient to revitalize Central America's productive sectors and to pull the region out of recession.

The sum of \$8.4 billion is a large one, but taken on an annual basis it accounts for only about 5 percent of the GNP of the region. Central America's export losses are now costing the region about \$1.5 billion a year.

Equally important to economic recovery in Central America is the establishment of an environment secure and stable enough to encourage the confidence necessary for long-term investment. Although the economic aid proposed by the National Bipartisan Commission far outweighs that requested for security assistance, it has been criticized for focusing excessively on military options.

The sad fact is that security is a problem in the region, and that no amount of economic aid will revive trade and investment in an environment where important transportation routes are made impassable, major energy installations are destroyed, and people are not safe from harm. Without infrastructure security, there can be no economic or social progress.

Unless stability is restored, Central Americans with the resources to ignite an economic recovery will continue to invest their money elsewhere and there is virtually no hope of preventing the further retrenchment of U.S. investors and lenders. Without security, there can be no productive self-generating development and Central America will be forced to continue taking balance-of-payments handouts from the United States merely to stay afloat.

In the meantime, a worsening economic situation in a region where 250,000 people enter the job market each year and nearly 40 percent of the population is under age 15 can only exacerbate the poverty and injustice which encourages insurrection. That is why the Commission concluded that long-term security assistance was a vital element of U.S. policy.

Toward the end of its report, the National Bipartisan Commission voiced support for the diplomatic efforts being made by the Contadora group. I believe that such efforts by the United States and other countries should be given more emphasis and that the proposed package of economic aid to Central America would provide an environment more propitious for such efforts.

The sum of \$8.4 billion is a sizable carrot, one that should be used to support our friends and those who would be our friends in their search for peace. This door should not be closed prematurely in favor of military options.

The report of the National Bipartisan Commission contains a number of proposals for economic development in the region aside from traditional development assistance which we feel are important. First, any serious attempts to revitalize the economies of Central America must include mechanisms which serve to integrate and coordinate economic activity in the region.

Wisely, the Commission urges the revival of the Central American Common Market. The Common Market had a proven record of success and contributed greatly to the high growth experienced by the region in the sixties. At that time over 50 percent of each country's industrial exports were channeled to other countries in the region.

As head of a corporation with industrial investments in five countries in that region, I experienced the value of the Central American Common Market. I believe that with appropriate assistance the Central America Common Market can again serve to increase trade and investment throughout the region. It can be of enormous help to small enterprises now unable to compete in local and world markets.

Integration of Central America's economies would permit the region to reap more benefits from U.S. aid. Whereas current assistance is divided among individual countries competing for slices of the pie, integration would allow all countries to benefit from each other's improving economies.

Second, the proposed Central America Development Organization offers a unique opportunity for the United States to put resources into

the hands of people who represent a better future for the region, people who are sometimes bypassed in the time-consuming bureaucracy that accompanies government-to-government assistance. These people include small entrepreneurs and businessmen who require a special understanding of their needs that could only be provided by the private sector.

While large infrastructure projects are necessary, too often development assistance helps large business while more fragile enterprises receive too little, too late.

Through the participation of United States and Central America labor groups as well as private businessmen, CADO insures that Central American workers also benefit from U.S. foreign assistance, thereby fulfilling U.S. aims to assure a more equitable distribution of economic gains.

Economic growth is important, but it alone will not provide a solution to Central America's problems. In fact, many of today's problems took root when the region's economy was at its peak in the 1960's. At that time, the fruits of the boom in exports reached only a few, while political structures failed to evolve to answer the burgeoning expectations of the poor and the small but growing middle classes.

In El Salvador, sincere efforts were made on the part of a new generation to erase economic inequities through land reform and free elections. Still, these efforts continue to experience serious setbacks due to the actions of two groups.

One is the armed insurgency which seeks power through force and has no interest in maintaining or revitalizing the present economic system. This group is dedicated to the destruction of any reform that relieves the polarization that serves it so well. The other group unfortunately includes those with the intellectual and financial resources to renew their society, but who seek to maintain the status quo.

Somewhere between the armed insurgency and the authoritarian right in Central America there exists a great majority of people from all walks of life who fervently believe in democracy, justice, and the free market. Too often the advantages of U.S. aid and special trade facilities do not reach these people.

The recommendations of the Commission offer the United States a new chance to get on the side of positive change in Central America. U.S. aid must be targeted at those who reinvest in their own countries, employ fellow Central Americans, and support the political beliefs that offer alternatives to dictatorships of the left or right. We must aim our efforts at building the economic and political strength of those who best represent our values in Central America.

The proposed Central America Development Organization can be aimed at achieving this goal. Without CADO, knowledgeable Central American and United States individuals from the public and private sectors will be able to monitor U.S. aid and insure that opportunities are realized. Private sector involvement in CADO will help instill confidence in U.S. investors through oversight functions.

Private sector expertise can be used to judge investments for their soundness and productivity. In addition, CADO can make sure that aid credits and investments meet the criteria of increased export earnings, rapid startup, and extensive job creation.

Equally important, CADO can serve to educate small- and medium-sized Central American businesses to take advantage of trade, aid, and credit programs.

Third, we strongly support the formation of the Central American Development Corporation as called for in the Commission's recommendations.

Fourth, the creation of a trade credit insurance program to be administered through the Export-Import Bank is terribly important. Commercial trade credits to Central America have virtually dried up, preventing those countries from importing materials vital to industrial and agricultural production. Because short-term credit is so crucial in the small economies of Central America, where it has traditionally accounted for some 50 percent of total working capital, immediate action is required. Guarantees to the local private sector should be made available as soon as possible as a necessary step in revitalizing the export sector.

To conclude my brief statement, I would like to reiterate that the proposals made by the National Bipartisan Commission on Central America merit strong support. We must use this opportunity to support institutions which better serve those who are willing to invest in the future of the hemisphere under conditions which assure human dignity.

[Mr. Marks' prepared statement follows:]

## PREPARED STATEMENT OF RUSSELL E. MARKS, JR.

On behalf of the Americas Society and its affiliates, the Council of the Americas and Caribbean/Central American Action, I would like to thank the Committee for inviting me to testify on the recommendations of the National Bipartisan Commission for Central America.

The Council of the Americas is an association of 185 U.S. corporations with interests and investments in Latin America and the Caribbean, representing about 90% of total U.S. direct investment in the region. The mission of the Council is to promote private enterprise as a positive force in the development of the hemisphere. Caribbean/Central American Action, funded by 70 U.S. business firms, seeks actively to match potential investors with opportunities in the Caribbean basin.

We believe that local private enterprise and foreign investment have important roles to play in the revitalization of Central America's economies, and therefore, in the long-term stability and prosperity of the region. In this context, we have made specific proposals, based on the unique and qualified experience of our corporate membership, that we hope will become part of a concerted bipartisan effort on behalf of U.S. policy toward Central America. I will present some of these in more detail later in my testimony.

First, I would like to say a few words about the recommendations made by the National Bipartisan Commission on Central America. The members of the Commission heard from hundreds of witnesses, with as many different perspectives, both here and in Central America. As a result of this meticulous and balanced information gathering, the Commission reached consensus on two vitally important points which give its recommendations a true national credibility. These are that Central America is important to U.S. interests -- in the Commission's words, "it makes a particularly urgent claim,"-- and that a responsible and long-term U.S. commitment can make a difference.

I wish to stress these points at the outset of my testimony because I think they must be kept in mind as the debate on legislation to enact the Commission's recommendations begins. Central American policy has been a troublesome political issue for years now, which is precisely why the President appointed a bipartisan commission to study the problem. The Commission, in turn, offers a strong foundation on which to build policy consensus, a foundation based on two premises which have strong support in most sectors of U.S. society.

The recommendations made by the Commission have already been subject to criticism. One argument is that the U.S. is "throwing good money after bad," that the aid requirement is endless and offers little return in the form of progress. This is indeed true when assistance is meted out on a partisan basis, almost ensuring that commitments cannot be kept from year to year. At the present time, aid to Central America is sufficient only to maintain the current stalemate. More importantly, the aid and the commitment behind it are not sufficient for the U.S. to secure real change in the region, and be able to genuinely support those sectors which deserve our consistent attention.

For this reason, we believe that a major long-term effort can be effective. The recently enacted Caribbean basin initiative offers great opportunity for countries of the region, but in order for that opportunity to be fully used, it must be supported with economic assistance sufficient to revitalize Central America's productive sectors and help pull it out of the recession. The sum of \$8.4 billion is a large one, but taken on an annual basis it accounts for only about 5% of the GNP of the region. Central America's export losses are now costing the region about \$1.5 billion a year,

and the economic recession has generated considerable excess capacity for production. For these reasons, we believe that with the proper political and economic policies to ensure long-term benefits, the sum of \$8.4 billion over the next five years is appropriate for the job that faces us.

Equally important to economic recovery in Central America is the establishment of an environment secure and stable enough to encourage the confidence necessary for long-term investment and growth.

This brings me to another argument being waged against an increased U.S. commitment to Central America. Although the economic aid proposed by the National Bipartisan Commission far outweighs that requested for security assistance, and although the Commission devoted only one seventh of its report to the question of security, it has been criticized for focusing excessively on military options.

The sad fact is that security is a problem in the region, and that no amount of economic aid will revive trade and investment in an environment where important transportation routes are made impassable, major energy installations are destroyed, and people are not safe from harm. Without security, there can be no long-term future for economic progress. Unless stability is restored, Central Americans with the resources to ignite an economic recovery will continue to invest their money elsewhere, and there is virtually no hope of preventing the further retrenchment of U.S. investors and lenders. Without security, there can be no productive, self-generating development, and Central America will be forced to continue taking balance-of-payments handouts from the U.S. merely to stay afloat. In the meantime, a worsening economic situation, particularly in a region where 250,000 people enter the job market each year and nearly 40% of the population is under age 15, can only escalate the poverty and injustice which encourages

insurrection in the first place. That is why the Commission, with regret, concluded that long-term security assistance was a vital, though smaller, part of U.S. policy.

While we fully support this premise, there remains a number of questions as to whether security can or should be achieved through military aid alone. Towards the end of its report, the National Bipartisan Commission voiced support for the diplomatic efforts being made by the Contadora Group. I believe that such efforts by the U.S. and other countries should be given more emphasis, and that the proposed package of economic aid to Central America, as well as proposals to revitalize the Central American Common Market, puts these efforts in a new light. To be succinct, \$8.4 billion is a sizeable carrot, one that should be used to support our friends and those who would be our friends in their search for peace, where that search is sincere. This door should not be closed prematurely in favor of military options.

The report of the National Bipartisan Commission on Central America contains a number of proposals for economic development in the region, aside from traditional development assistance, which we feel are especially important. One is the creation of a Trade Credit Insurance Program to be administered through the Export-Import Bank. Commercial trade credits to Central America have virtually dried up, preventing those countries from importing materials vital to industrial and agricultural production. Because short-term credit is so crucial in the small economies of Central America, where it has traditionally accounted for some 50% of total working capital, immediate action is required. Guarantees to the local private sectors should be made available as soon as possible as a necessary step in revitalizing the export sector.

We also support the formation of the Central American Development Corporation, as called for in the Commission's recommendations. The CADC would be self-generating, capitalized by private sector investors with initial support from a long-term U.S. government loan. The CADC would serve to channel funds to private companies in Central America, promoting investments for commercially viable projects in high priority economic sectors which would otherwise find it difficult to obtain working capital or investment loans. That the CADC would be managed by experienced private entrepreneurs who will be able to quickly target aid where it is merited, greatly increases its potential for increasing investment in the region.

Another important new institution with potential for the Central American region is being developed by the Inter-American Development Bank and will soon be presented for consideration by the U.S. Congress. Although the Inter-American Investment Corporation is not part of the assistance package being considered here today, I would like to take this opportunity to urge support for this proposed mechanism for multilateral investment assistance. The Inter-American Investment Corporation, which will include participation by the U.S., Latin American and European nations, will offer much needed technical support, equity, and loans to private sector companies active in the region.

Any serious attempt to revitalize the economies of Central America must include mechanisms which serve to integrate and coordinate economic activity in the region, particularly the Central American Common Market (CACM). Unlike numberous other attempts to encourage economic growth in the past, the CACM has a proven record of success, and contributed greatly to the years of high growth experienced by the region in the sixties. At that time, due to the CACM, over 50% of Central America's industrial exports

were channeled to other countries in the region, creating an important market for Central American products where none had existed before. As head of a corporation with industrial investments in five countries in the region, I experienced the value of the Central American Common Market first hand. I believe that with some assistance to resume operations, the Central American Common Market can again become key to increasing trade and investment throughout the region. As a regional body, it can be of enormous help to small enterprises now unable to compete in world capital markets.

In addition, the prospect of a revitalized Common Market presenting new opportunities for participating countries creates a real incentive for peace in the region. Nicaragua should be encouraged to meet reasonable conditions that will allow for enough economic integration for Central America to leverage trade and financing on a regional, as opposed to a bilateral, basis. Integration of Central America's economies would also permit the region to reap more benefits from U.S. aid -- whereas current assistance is divided among individual countries competing for slices of the pie, integration would allow all countries to benefit from each other's improved economic and financial standing.

The Commission, through the proposed Central American Development Organization (CADO), offers a unique opportunity for the U.S. to put resources into the hands of people who represent a better future for the region, people who are sometimes bypassed in the time-consuming bureaucracy that accompanies government-to-government assistance. These people include small entrepreneurs and businessmen who require the special understanding of their needs that can only be provided by the private sector. While large infrastructure projects are necessary, too often development assistance helps large contractors and government middlemen while more fragile enterprises receive too little too late. Through the participation of U.S. and

Central American labor groups, as well as private businessmen, CADO ensures that Central American workers also benefit from U.S. foreign assistance, thereby fulfilling U.S. aims to support free labor unions, a vital component in the struggle to establish a meaningful democratic society.

Economic growth is important, but it alone will not provide a solution to Central America's problems. In fact, many of today's problems took root when the region's economy was at its peak in the 1960s. At that time, the fruits of booming exports reached only a few, while political structures failed to evolve to answer the burgeoning expectations of the poor and the small but growing middle classes. In El Salvador, sincere efforts were made on the part of a new generation to erase economic inequities through land reform and free elections. Still, these efforts continue to experience serious setbacks due to the actions of two groups. One is the armed insurgency which seeks power through force and has no interest in maintaining or revitalizing the present economic system. This group is dedicated to the destruction of any reform that relieves the polarization that serves it so well. The other group, unfortunately, often includes those with the intellectual and financial resources to renew their society, but who seek, just as strongly and violently, to return to the status quo.

Somewhere between the armed insurgency and the authoritarian right in Central America, there exists a great majority of people from all walks of life who fervently believe in democracy, justice, and a free market. Too often the advantages of U.S. aid and special trade facilities do not reach these people, who are not organized in the sophisticated, English-speaking political groups serving the extremes. The recommendations of the National Bipartisan Commission offer the U.S. a new chance to get on the side of positive change in Central America. U.S. aid must be targeted

at those who will reinvest in their own countries, employ fellow Central Americans, and support the political beliefs that offer alternatives to dictatorship of the left or right. We must aim our efforts at building the economic and political strength of those who best represent our values in Central America.

The proposed Central American Development Corporation can be aimed at achieving this goal. Within the CADO, knowledgeable Central American and U.S. individuals from the public and private sectors will be able to monitor U.S. aid and ensure that full use is made of new opportunities and leverage. Private sector involvement in the CADO will help instill confidence in U.S. investors through oversight functions, and experienced investors can assist those new to the region in taking advantage of services, such as political risk insurance, offered through various U.S. agencies. Private sector expertise can be used to judge investments for their soundness and productivity. In addition, the CADO can make sure that aid, credits, and investments meet the criteria of increased export earnings, rapid start-up, and extensive job creation, ensuring that U.S. aid is not funnelled back into U.S. banks or other unproductive, but profitable enterprises. Equally important, the CADO can serve to educate small and medium-sized Central American businesses to take advantage of trade, aid and credit programs, making sure that awareness of these incentives goes beyond the English-speaking upper classes with numerous Washington contacts.

The Americas Society presented testimony before the National Bipartisan Commission three times, and also presented, at the Commission's request, a number of specific recommendations for several self-replenishing projects aimed at promoting trade and investment in the region and providing management training for local private businessmen. I would be happy to present a more detailed description of these projects, which could form part of CADO's mandate, to the Committee.

To conclude my brief statement here, I would like to reiterate that the proposals made by the National Bipartisan Commission on Central America merit strong support, as do the Central American people. But we must use this new opportunity to support our true friends in the region, through new institutions that better serve those who are willing to invest in the future of the hemisphere.

The CHAIRMAN. Thank you very much.  
Ambassador Moss.

**STATEMENT OF HON. AMBLER H. MOSS, JR., EDITOR,  
THE MIAMI REPORT, MIAMI, FLA.**

Ambassador Moss. Mr. Chairman and members of the committee, as editor of the Miami Report, I appreciate very much your invitation to appear here this morning and welcome the opportunity to present this testimony. In view of the chairman's exhortation to brevity, I will not read my written statement which I have submitted, but I will hit the highlights and tell you a little about what I think are some of the more relevant aspects of our recommendations in the light of the Kissinger Commission report.

The CHAIRMAN. The full text will be incorporated in the record.

Ambassador Moss. Thank you, sir.

First of all, just a few words on what the Miami Report is. It is what I would call a quasi-academic community exercise by some 200 bankers, businessmen, academics, and other citizens of Miami. Their view is that they may not be the best-recognized experts on U.S. policy toward Latin America and Central America, but they do live in a community which has day-to-day contact with Latin America, which feels very directly the effects of what goes on there, and particularly in the Caribbean Basin.

We are pleased also that Senator Hawkins wrote a forward for our report. She of course quite wisely put in the provision that she did not endorse everything we wrote in it, but we are grateful for that moral support.

It is not surprising, Mr. Chairman, that the Miami community generally saw economic problems in Latin America on the whole as the most difficult problem facing United States-Latin American relations, and we would not be able to separate the problems of Central America from the economic problems of Latin America generally.

We are concerned, as we state in our report, that we do not believe the crisis to be a temporary recession, but a long-term economic problem caused by the need to service a debt, which if left to the present policies being implemented by the U.S. Government, by the IMF, by the Latin American governments themselves and the private banks, will probably result in a continuously sick continent at our doorstep.

Added to that, of course, in Central America, to the Latin American problem of economic stagnation, are the problems of the deterioration of infrastructure caused by violence and the breakdown of the Central American Common Market and intraregional trade.

The consequences of this economic crisis to the United States will be twofold: First, we will continue to lose exports and jobs and will register increasing trade deficits; and in the medium term, we think that it presents the specter of serious political instability in all the countries.

The Miami report takes the view that an economic revitalization of the area should be the No. 1 U.S. priority, and by this we mean not simply periodic financial workouts designed to avoid defaults. In our report, we present a series of recommendations for debt management, private foreign investment, trade and foreign assistance, of which I will just mention a few.

We believe that U.S. Government policies ought to be aimed at seeking rescheduling debt programs on a basis which allows for economic growth, not merely the avoidance of default. And one of the points that we make, Mr. Chairman, is that we think one of the most effective ways to do this and one of the ways in which the United States could benefit Latin America the most would be to put our own financial house in order, to get away from the problem of the large financial deficits, and to bring down the U.S. interest rate.

We favor the investment tax credit, which did not make it through the Caribbean Basin initiative, as a way of stimulating private investment, and also the expansion of the unilateral trade preferences established under this Caribbean Basin initiative. We take the view that trade and export development, exports to the United States, will in the end benefit Latin America economies a great deal more than will large programs of foreign assistance.

In that connection, we urge that the United States remove all possible trade barriers to Latin American products, including the exceptions which were written into the CBI trade legislation.

We think that a great deal of emphasis ought to be placed, frankly more than that which was placed in the Kissinger Commission report, on strengthening the Central American Common Market through support for regional institutions such as the Central America Bank for Economic Integration, of which the United States is not now a member but will be eligible for membership; and also, in our aid programs to make as a primary focus increasing ways which emphasize the growth of the private sector, the creation of jobs, and the financing of infrastructure to increase productivity.

With regard to the political and social problems of the area, although we did not use the term "seamless web," that is the view that we adopted of the interrelation between the intrusion of the East-West confrontation into the area, the North-South economic problems, and the internal drive for reform or for replacement of what had been unresponsive political structures.

We discuss, in the Miami report, several different areas under the headings of democratization, education, and Cuban and Soviet threat. We believe, as was stated in the National Bipartisan Commission report, that foreign assistance should be conditioned on respect for human rights. We believe—apart purely from moral considerations—not to do so could only hasten the demise of certain regimes, giving way to more extreme governments, which would be undesirable for U.S. interests.

We believe also that the U.S. Government should very strongly support the efforts of the Contadora group toward a peaceful negotiated settlement in Central America, and that regional negotiations cannot be elaborated and implemented by Washington alone, but have to come from the Latin American countries themselves, devolving upon them the responsibility to do so.

I would also point out that on January 8 the Contadora countries and the Central American countries signed a declaration in Panama for the implementation of the doctrine of objectives, the so-called 21 points of September 1983, which show that the Contadora group is alive and well.

We feel strongly that something must be done about the problem of education. There are thousands upon thousands of young people in the Caribbean Basin who are educated in places like Lumumba University in the Soviet Union, which makes an investment in the youth of the Caribbean Basin where our country fails to do so.

To end, Mr. Chairman, let me just say that we believe that there is certainly a clear, identifiable U.S. interest in a stable and economically healthy Central America, and that violence and turbulence there can lead to a panoply of threats against our security and economic interests. For that reason, in general, we would support the focus of the Kissinger Commission report in putting the problems of Central America on the front burner in this crucial election year and in the debates that will ensue over those policies.

Thank you, Mr. Chairman.

[Ambassador Moss' prepared statement follows:]

Statement of  
Ambler H. Moss, Jr.  
Editor, The Miami Report  
of counsel; Greenberg, Traurig, Askew, Hoffman,  
Lipoff, Rosen & Quentel; Miami, Florida  
former U.S. Ambassador to Panama  
before the  
Senate Foreign Relations Committee  
Wednesday, February 8, 1984

In early 1983, a group of Miami businessmen, bankers and professionals met with Dr. Edward T. Foote, II, President of the University of Miami, to discuss the state of our country's relations with Latin America. They decided that they should prepare a report, under the University's auspices, to outline the views of an internationally-minded business community and to present specific recommendations for our legislators and policymakers. The Miami Report, published on January 2, 1984, is the result of the feeling of these citizens that they had a responsibility to speak out, based on their special experience.

Miami is a unique community in that a great number of those who live there have nearly daily contact with Latin America and the Caribbean. South Florida, physically and culturally a part of the Caribbean Basin, has a large Spanish-speaking population and as well as residents who come from all over the English-speaking Caribbean. Our commercial, tourist and banking centers all feel the immediate impact both of good times and bad times in our neighbors to the South. The Miami area is a base for the Latin American operations of nearly 100 multilateral corporations.

The some two hundred participants in our Report decided to limit its scope to those topics they felt best qualified to address: the economic problems of the area, and the special interest of the United States in the Caribbean Basin, including Central America.

It is not surprising that the Miami community generally saw the economic crisis in all of Latin American as the issue of paramount importance. Unfortunately, we do not believe the crisis to be a temporary recession, with recovery coming as a consequence of renewed U.S. economic growth. Rather, we are concerned that the debt problem, if managed as at present by the IMF, the large private banks and the Latin American governments will result in a continuously sick continent at the U.S. doorstep. Central America suffers from the general problem of Latin American economic stagnation as well as from the effects of violence in some countries.

The consequences to the United States of a prolonged economic crisis in Latin America are twofold. First, we will continue to lose exports and jobs and will register increasing trade deficits because of the weakness of our country's major customers. In the medium term, it also presents the spectre of serious political instability in the Hemisphere, which could affect our national security far more than the problem of Soviet influence in the Caribbean Basin.

The Miami Report takes the view that the economic revitalization of Latin America should be a prime objective of U.S. policy, not simply periodic financial workouts designed to avoid defaults. The Report offers a series of recommendations in debt management, private foreign investment, trade and foreign assistance.

Briefly, some of our principal recommendations in the economic area are:

- to aim U.S. Government policies at seeking to place IMF and bank rescheduling programs on a basis which allows economic growth.
- to seek a reduction of real interest rates as a high priority--the most efficient way to do this would be to put our own financial house in order and bring down the U.S. budget deficits.
- to implement facilities for freer private investment and financial flows.
- to structure an investment tax credit for U.S. firms using American-made equipment and material for investment.
- to expand the unilateral trade preferences established under the Caribbean Basin Initiative and the Generalized System of Preferences, emphasizing Latin American export growth as the best way to achieve economic revitalization. I would emphasize that we place great importance on trade as an instrument of economic recovery as opposed to massive amounts of foreign assistance. The United States should remove all possible trade barriers to Latin American products and to avoid new acts of protectionism unless clearly necessary to the broader U.S. interest.

- to increase bilateral and unilateral foreign assistance in ways which emphasize growth of the private sector, the creation of jobs and exports and the financing of infrastructure to increase productivity.

With regard to the special political and social problems of the Caribbean Basin, including Central America, we take the view that the region's troubles cannot be explained by any simple theory or solved by any single policy decision. The situation resulting from the entry into the area of East-West confrontation, the effects of North-South economic problems and the emergence of political forces bent on reforming (or replacing) unjust and unresponsive national governments are all intertwined. The application of a particular mix of policies to each Central American and Caribbean country will naturally depend upon that country's internal realities and its relations with the United States.

The Miami Report offers thirty-one specific recommendations in the four general areas of:

- a) democratization, reform, human rights and instability
- b) education as a component of assistance
- c) immigration
- d) Cuba and the Cuban-Soviet threat

Some of our principal conclusions are:

- That the United States Government should react strongly to violations of human rights whether by governments or guerrilla groups.
- That foreign assistance should be conditioned on respect for human rights. Not to do so, apart from moral considerations, may only hasten the demise of regimes which are unresponsive to the need for reform, only to be replaced with more extreme governments.
- That the United States should support the efforts of the Contadora Group toward a peaceful, negotiated settlement in Central America. Regional solutions cannot be made and implemented by the U.S. alone, but

responsibility must be given to the countries of the area, that is, the Central American and Contadora Group countries, to develop solutions.

- That free elections should be supported and the Organization of American States encouraged to help carry them out.
- That the U.S. back a strong educational component as an integral part of any financial assistance program, including technical training, literacy programs, and scholarships to study in the United States. Today, through the granting of thousands of full university scholarships, the USSR and its allies are investing in the youth of the Caribbean Basin. It is essential that we do at least as much. Universities in the United States, our private sector, and government should form a partnership in this effort.
- That the United States face the problem of Caribbean immigrants by establishing a special quota system.
- That immigration law impose sanctions on those who employ undocumented immigrants and that the U.S. establish better border control with due respect for human rights and due process.
- That a comprehensive policy be formulated to deal with Soviet forces in Cuba and Soviet-Cuban involvement in Latin America, focused principally at opposing the entry of foreign forces into Central America and the Caribbean.
- That the upgrading of current levels of diplomatic contact with Cuba or altering the embargo should be considered, but effected only on major Cuban concessions on issues which the U.S. considers fundamental: the export of subversion, the Soviet military presence on the island, Cuban troops in Africa, and the maintenance of a totalitarian dictatorship violative of human rights.

To summarize, members of the Miami community which participated in this report feel that the issues affecting our relations with Latin America and the Caribbean ought to occupy a place of special importance in the debates of this election year. We know no area of the world which is more vital to our national interest.

Let me now go beyond the findings of The Miami Report and address some of the specific questions which the Chairman has asked with reference to the Report of the National Bipartisan Commission on Central America.

There is a clear, identifiable U.S. interest in a stable, economically healthy Central America. Violence and turbulence there can lead to threats against our security and economic interests. In the extreme, these could hypothetically take the form of the introduction of Soviet offensive weapons and forces into the Central American isthmus, Cuba-style. Unsettled conditions in Central America are already leading to an increased flow of illegal immigration into the United States, which could become even greater in a more violent environment. Although Central America may not represent a critical area to the United States economy, troubles there do represent a further loss of economic opportunity and a deterioration of our export markets.

With respect to foreign assistance, the report of the Commission correctly identifies the causes of GDP decline in recent years and underscores the urgency of rebuilding Central American economies. It certainly avoids any overly optimistic forecasts of what can be done with foreign aid. I would add three suggestions as to areas which require special scrutiny and emphasis.

First, the Congress should be assured that there is sufficient absorptive capacity in each recipient country, and in each sector within that country, for which large additional amounts of economic assistance are prescribed. Otherwise, the aid can create inflation or cause other distortions in the local economy, and may simply be wasted.

Secondly, I would place much greater emphasis on trade and the development of exports to the United States than does the Commission. President Reagan's Caribbean Basin Initiative (CBI) was an excellent beginning to implement a development strategy based largely on trade and private investment. In view of the deep economic crisis in Central America, described vividly by the Commission, I would urge that the restrictions in the CBI trade legislation (shoes, textiles, etc.) be removed or liberalized and that investment incentives be added. Furthermore, U.S. policy and legislation might seek additional ways to divert trade pres-

ently coming to the United States from more developed regions such as East Asia, into the Caribbean Basin. One obvious way would be not to renew GSP treatment for such regions.

Third, more emphasis should be given to seeking to revitalize the Central American Common market and to stimulate intra-regional trade. Such a recommendation, included in the report of the Commission, should be strengthened by providing significant amounts of immediate assistance to regional institutions such as Central American Bank for Economic Integration (CABEI), of which the United States is not now a member.

I would comment on the Chairman's questions regarding the role of U.S. military assistance in the following manner. Rather than look to additional military assistance to turn a deteriorating situation into an improving one, we should shift our focus more toward the Latin American countries of the region. Their destiny, after all, is even more directly affected by the outcome of the Central American crisis than is ours. Potentially the most significant grouping is the Contadora Group--Mexico, Panama, Colombia and Venezuela. That Group, if it were more self-confident, better organized and more assertive, might accomplish what United States policy is seeking presently with only mixed results. It could, for example, lay down an even-handed policy which might be more effective than U.S. fleets and military maneuvers in dissuading Fidel Castro's adventures, more effective in bringing pressure on the government of Nicaragua than the U.S.-backed "contras," and more effective than our Executive and Legislative Branches in demanding human rights improvements in El Salvador.

To expect such results of the Contadora Group is not futile dreaming. Last September the Contadora powers, working with the Central American governments, adopted a Declaration of Objectives for regional peace. This past January 8, three days before the release of the Kissinger Commission's report, the Contadora Group and Central American foreign ministers signed a document in Panama entitled "Principles for the Implementation of the Commitments Undertaken in the Document of Objectives" (reported in Foreign Broadcast Information Service - Latin America, 9 January 1984, pp. 12-14.)

These "Principles" consist of a detailed list of measures to be taken to remove all foreign military advisers in the region, reduce armaments and eradicate irregular paramilitary forces as well as to promote political democracy and economic revitalization, in a climate of negotiation and dialogue among all the states of the region.

The January 8 declaration shows that the Contadora process is alive, well and creative. The document is a well-articulated peace plan made in Latin America, not in Washington. United States policy should be sensitive toward encouraging this effort, not stifling with plans which reflect only Washington's view of Central America.

# THE MIAMI REPORT

**RECOMMENDATIONS ON  
UNITED STATES POLICY  
TOWARD LATIN AMERICA  
AND THE CARIBBEAN**

— a community's call for response  
to economic and political crisis

## THE MIAMI REPORT

### Steering Committee

**Luis Botifoll**

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## PREFACE

**Edward T. Foote II**

President

University of Miami

The Miami Community has rendered a significant service in creating *The Miami Report*. It was a bold plan, proposed first by Ambler H. Moss, Jr., former Ambassador to Panama, now a practicing lawyer in Miami and Adjunct Professor at the University of Miami's Graduate School of International Studies. Ambassador Moss asked an intriguing question: Why not look to ourselves as a unique American community, a microcosm of this part of the world, for answers to the seemingly intractable problems that whipsaw Latin America and the Caribbean region?

Community leaders and my colleagues at the University of Miami responded: Why not try? Unlike other assessments of international problems and potential solutions, this one is not the product of "experts" from afar. Rather, in the following pages is the distilled experience – and expertise – of a vibrant, powerful, multiethnic community. The publication of *The Miami Report* follows months of fascinating work. From the beginning, the effort was to include, not exclude, any reasonable opinion. Tapping the huge reservoir of knowledge about Latin America in our own backyard, the editors fostered open, robust debate. Nothing was taboo. Participants tested theory against the reality of international experience.

We are proud of the result reflected in these pages. Although no reader will necessarily agree with every proposal, there runs through the following report a core of undeniable strength. It is a strength born of honesty and the hard work of many knowledgeable and capable people from a community increasingly regarded as one of the great international centers of the world.

**FOREWORD****The Hon. Paula Hawkins**

United States Senate

El Salvador, Nicaragua, Grenada, Mariel. Odds are if four years ago someone had asked the average American what these names meant, he would have been greeted with a blank stare. Four years ago, our attention was gripped by hostages in Iran and events in the Middle East. Hardly a word was mentioned in the press regarding the Caribbean and Latin America. Today, things have changed dramatically. While events in the Middle East continue in their importance, today they share space regularly on the front page of our newspapers with stories about the debt crises in Mexico, aid to El Salvador, and civil war in Nicaragua.

This changing attitude is also being reflected by our policymakers. For too many years, American policymakers have treated the Caribbean and Latin America in an on-again, off-again fashion. Problems would begin to mount until we were faced with a crisis and had no choice but to give the region our full attention. But when the crisis had passed, the problems that plagued the region would again slip into obscurity. This in turn contributed to the inevitability of the next crisis. Such has been the pattern of American policy in the Caribbean and Latin America. It was a policy of neglect and ignorance, of reaction and stagnation. It was, in fact, a non-policy.

I believe, however, that perceptions are changing now. There is an increasing awareness from the "experts" in Washington down to the man and woman on the street that these diverse and complex nations to our south are vital to our own national security and economic well-being. Nothing better reflects this than *The Miami Report*. The significance of *The Miami Report* lies not with any of its individual recommendations, though I have found them thoughtful and worthy of serious consideration. Its significance lies in its vision, its understanding that the United States has long-term interests in the Caribbean and Latin America, and that it must have a long-term policy to support and advance those interests.

While focusing on the long-term economic, social and political problems facing the region, I believe it is important that the *Report* deals with the manner in which these problems can be manipulated and, in some cases, exacerbated in the context of the U.S.-Soviet/Cuban rivalry. I believe that Soviet and Cuban adventurism in the region is a serious threat to American national security and must be vigorously opposed. In our hurry to treat the long-term problems of the region, however, we cannot afford to ignore the short-term political and security threats posed by Soviet and Cuban involvement in the region.

There is, however, one important issue that escaped the attention of the *Report*. It is the problem of illegal narcotics. This problem is not traditionally considered a major foreign policy issue, but I believe that unless we begin to give this the attention it deserves, all of our other efforts could be in vain. Illegal narcotics breed crime and violence. They undermine the social health of a society. They promote bribery and corruption in government. The money gained from narcotics trafficking is frequently used to finance guerrilla movements dedicated to overthrowing various governments, even democratic governments. Illegal narcotics pose one of the most serious problems facing the United States and many of the nations of the Caribbean and Latin America. This problem deserves the sort of careful study and thoughtful recommendations that characterize *The Miami Report*.

Though I differ with some of the recommendations contained in *The Miami Report*, I believe that it makes a valuable contribution to the debate on American policy toward the Caribbean and Latin America. America stands at the crossroads regarding our relationship with our neighbors to the south, and *The Miami Report* will be important in ensuring that we adopt a sound policy toward that region.

## FOREWORD

**The Hon. Dante B. Fascell**

Member of Congress

With the problems of the international debt crisis and political and social upheaval in Central America frequently in the headlines, the publication of *The Miami Report* is a particularly timely expression of the attention and concern of the Miami community for our closest neighbors. There is little doubt that the U.S. has an important strategic, economic, political and human stake in Latin America. How the serious problems of our hemisphere can be solved is a question which deserves the consideration of the best minds of our business, political and academic leadership.

While it is regrettable that security issues and economic crises are too often required in order to focus the priority attention of U.S. policymakers on Latin America, the implications of Cuban-Soviet involvement in the region for the security of the United States and our neighbors and for the very survival of democratic systems are indeed serious. Any change contemplated in our relationship with Cuba demands very close scrutiny and the application of stringent criteria to protect legitimate interests of the U.S. and of our friends and allies not only within the region but elsewhere.

In the short term, both military assistance to combat insurgency and efforts to resolve regional political problems by peaceful means, such as the negotiations proposed under the Contadora initiative, are necessary. Yet a major part of *The Miami Report* appropriately addresses the underlying causes of conflict, economic and political instability in the region. Increases in trade, investment and developmental aid to the region, with education and training as major components of our technical assistance efforts, are keys to the long-term effectiveness of U.S. policy in Latin America. But any policy which ignores the need to develop infrastructure, to resolve the external debt crisis, to meet the frustrations and social needs of the region's poor, and to

encourage the proper political climate is doomed to failure in the long term.

The U.S. can and should, first of all, set an example by ensuring the effective functioning of our own democratic system. Beyond that, we can encourage the growth of democratic institutions, including free elections and a respect for human rights, through creative efforts such as those envisaged in the recently passed legislation establishing the National Endowment for Democracy. This new player in the international political arena will work through political parties, labor and the business community to fund projects designed to further democratic development. Together with the activities of the Inter-American Foundation and other private initiatives like those of the Partners of the Americas, Caribbean/Central American Action, and our universities, we can go a long way toward alleviating the frustrations and meeting the most sharply felt needs of the disadvantaged people of our hemisphere.

Simultaneously, we need to ensure ongoing communication so that problems and concerns may be aired, heard, and understood. Exchange programs are one very important means of furthering this dialogue and merit the support of both the public and private sectors. The academic community especially can further the discussion of issues and propose solutions through research, conferences, publications, and international exchanges.

For this reason, while I do not agree with all of the *Report's* conclusions, I believe that this study has stimulated new thinking about possible alternatives for U.S. policy. It is in this spirit of free, nonpartisan debate that I welcome efforts like *The Miami Report* as a contribution to the realization of an ideal — a long-term, consistent, and bipartisan U.S. foreign policy.

## ACKNOWLEDGMENTS

The Steering Committee and the Editorial Staff wish to acknowledge with gratitude the effort made by many persons and organizations to bring *The Miami Report* into being.

Former Acting Dean Rafael C. Benitez and Acting Associate Dean Julian Weinkle, of the Graduate School of International Studies, University of Miami, contributed much of their own personal time and interest to the project and assured that the School's facilities and resources were available as needed.

Graduate students from INS 571, a seminar at the School, volunteered to help coordinate the public meetings and to act as *rapporteurs* in compiling the results. Their aid was invaluable.

Although the University of Miami provided the majority of the funding for the project, valuable assistance was given by the Florida International Bankers' Association; Esso Inter-America, Inc.; Flagship Banks; Republic National Bank; the Dupont Corporation; Mr. Jorge Mas Canosa; and *The Miami Herald*.

Our greatest thanks go to the people of the greater Miami community who responded to the challenge of this *Report* with enthusiasm and dedication. Among them, members of the Miami Forum on Latin America, a discussion group of economists, bankers, and professionals, put in many extra hours developing economic studies for the project. Several particularly well-qualified individuals in the community – Siegfried Marks, Robert Sherwood, Robert Ross, and Robert Houdak – volunteered extra time and talent in drafting the recommendations.

Finally, we are grateful to those persons who accepted our invitation to contribute papers for publication under their own names. These papers are included as Annexes to *The Miami Report*.

## INTRODUCTION

As one might expect in such turbulent times, especially with elections approaching, there has been a heavy output of articles by foreign policy specialists offering advice or criticism with regard to the way in which the United States is managing its Western Hemisphere relationships. In addition, at least five major reports on aspects of United States-Latin American relations have been or will be published during 1983 and 1984: one from the presidentially appointed National Bipartisan Commission on Central America (the "Kissinger Commission"), the others from prestigious institutions or "blue ribbon" panels of experts.

*The Miami Report* is different. It is the attempt of a number of citizens, representative members of an internationally-minded community, to make known to the nation's policymakers their views and recommendations on critical aspects of United States-Latin American relations. The participants do not claim to be the country's top experts, but they feel a special responsibility to speak out, derived from the uniqueness of Miami and of their experience.

South Florida is physically and culturally a part of the Caribbean Basin. The greater Miami area is not only multilingual, but also includes large populations from the English-speaking Caribbean. It is the favored stop for tourists from much of Latin America. Its bankers and businessmen are in daily contact with the Caribbean and Latin American countries, and it is a base for the Latin American operations of nearly 100 multinational corporate offices.

The Miami community feels the immediate impact both of good times and of bad times in Latin America. During the late 1970s, wealthy Venezuelan, Argentinian, and Brazilian visitors filled Miami's hotels, enriched its shopkeepers, and bought condominium apartments as weekend *pieds-a-terre*. Their numbers have dwindled with the recession, and the economic troubles of Venezuela alone are reckoned to have caused South Florida the loss of up to 27% of its exports in 1983.

Nonetheless, Miami cannot change its destiny any more than it can change its geography. Miami's future will be made in international business, trade, and finance, and South Florida will be recognized more and more as the pivot between North and South within the Western Hemisphere. As greater Miami becomes a world-class city, it does so because of the international nature of its business.

The thought that the knowledge and opinions of this special community formed a valuable resource that had not been mined intrigued many of us, including President Foote of the University of Miami, who moved here three years ago from St. Louis, Missouri. Our nation's policymakers look frequently to the informed: Why not ask Miami's business, banking, academic, and civic leaders, who are so heavily involved with Latin American problems, what they think?

Under the direction of a distinguished Steering Committee which is broadly representative of our community, and with the help of the Graduate School of International Studies of the University of Miami, that is what we did. Invitations to participate were issued to about 400 persons knowledgeable about Caribbean and Latin American affairs, drawn from the area's business, banking, academic, professional, civic, and journalistic sectors. These invitees in turn were asked to suggest other names.

The forms of participation were various. A number of large meetings were held, to bring to the surface the greatest number of ideas and the diversity of views. These meetings were complemented by smaller sessions and seminars. One group of bankers, economists, and academics, The Miami Forum on Latin America, took upon itself the task of developing fully much of the report's economic recommendations and analysis.

The publication of *The Miami Report* would not have been possible without the work of Alexander McIntire, our Coordinator, who is a Graduate Fellow and Ph.D. candidate at the Graduate School of International Studies. Sacrificing months of time he could have spent in pursuit of his own career, Mr.

McIntire worked with tireless dedication toward the organization, drafting, and publication of the *Report*.

We did not attempt to force consensus, although we were pleasantly surprised to find a sense of the participants develop on a number of issues. The diversity of our community and its understandable tendency to see the same phenomena from different points of view account for the disparate comments found in the thornier political topics. In a way, as one member of our Steering Committee put it, we are "reflecting a compendium of opinions," rather than expressing group recommendations backed by profound analysis on each subject. Participants who felt strongly about an issue, or a group of issues, were encouraged to write short papers, which have been included as annexes to the *Report*.

Although starting with an ambitious list of subjects, the participants eventually decided to limit the scope of the finished *Report* to those topics they felt best qualified to address: the economic problems of the area, and the special interest of the United States in the Caribbean Basin, located right on our shores.

What did we find? Not surprisingly, the Miami community generally saw the economic crisis in Latin America as the issue of paramount importance. It is cause for deep concern, threatening our own financial health; impacting negatively on our trade balance and our domestic employment; and presenting the spectre of serious political instability in the Hemisphere, which could affect our national security.

Additionally, if there was real consensus on any one point in our report, it was the belief that the policies presently being pursued by the U.S. Government, the International Monetary Fund, the large banks, and the governments of Latin America are not sufficient. Present policies may enable the debtor countries of the Western Hemisphere to limp through successive financial crises and to avoid default, but they will not bring about economic recovery. They will, instead, leave a dangerously unhealthy continent. Feelings run strong among the economically

informed of this community that now is the time to take remedial action to help Latin American economies recover and grow, not just to hope that the economic house of cards will not fall.

The second serious problem area which *The Miami Report* addresses is the multifaceted set of issues confronting the Caribbean Basin. These must be addressed on an urgent basis; as the Miami community knows from direct experience, the United States will feel an immediate impact from what happens in this critical and proximate area.

There was overwhelming support in the Miami community for the Reagan Administration's military action in Grenada. Nevertheless, the section on the Caribbean Basin will indicate that the Miami community is not given simply to military solutions, but takes a sophisticated view of the interactions of the political, economic, and security aspects of the problem. It was not lost on this community that the success of the Grenada operation, a very limited action in one of the area's tiniest bits of territory, was not without its political and human cost, nor was it effortless. A workable Caribbean Basin policy, of which the Caribbean Basin Initiative is an important component, must be aimed, in part, at avoiding future Grenadas.

The participants in *The Miami Report* approached their task in a completely non-partisan manner. Party politics were never once mentioned during our meetings or deliberations. Moreover, there was a strong feeling, frequently expressed, that United States policy toward Latin America should be bipartisan and consistent from administration to administration. Policy swings resulting from the coming to power of a different party in the Presidency are harmful to the accomplishment of broader U.S. objectives in the area.

The timing of this report, at the beginning of an important election year, is not a coincidence. With it, our participants hope to make a contribution to the informed discussion of crucial issues which our country faces in 1984, and which all the candidates for national office should address.

## **PRECIS OF RECOMMENDATIONS FOR UNITED STATES POLICY**

### **LATIN AMERICA'S ECONOMIC CRISIS**

#### **DEBT MANAGEMENT**

1. Reduce real interest rates, preferably by reduction of U.S. deficits.
2. Adopt these principles:
  - Foreign debts should be restructured to reflect debtor countries' capacity to pay.
  - Insist on responsive policies from the debtor countries.
  - Shape debt service program in such a way that confidence is maintained.
3. Use Federal Reserve to provide funds to banks to be used for loans for productive purposes.
4. Liberalize Federal Reserve loan classifications, to encourage banks to make concessionary rescheduling.
5. Discourage rescheduling and other up-front fees by banks.
6. Convert selected foreign assistance debts to local currency repayment, and use those funds for non-loan development projects.
7. Provide convertibility insurance for working-capital loans through OPIC or other agency.
8. Restructure the total debt of countries to a level which allows reactivation of local economies, using the IMF as negotiator and guarantor. In return, insist on internal productivity improvement measures.

9. Encourage debtor countries to institute responsive private debt conversion programs, using their own central banks.

#### **DIRECT PRIVATE INVESTMENT**

1. Extend authority of OPIC and Exim Bank to facilitate financing and provide protection for U.S. investors.
2. Provide a limited investment tax credit for U.S. firms using U.S.-made equipment and material for investment in Latin America and the Caribbean.
3. Encourage international agencies to act to foster a favorable investment climate in Latin America and the Caribbean.
4. Strengthen the Department of Commerce, the U.S. Trade Representative, and the appropriate embassy sections to promote U.S. investments in Latin America and the Caribbean.
5. Recognize and encourage existing organizations working to facilitate positive contacts between U.S. investors and those from Latin America and the Caribbean.
6. Continue strong support for fair compensation in cases of expropriation or nationalization.
7. Encourage use of World Bank's International Center for the Settlement of Investment Disputes.
8. Continue to promote creation of international insurance programs.

#### **TRADE**

1. Continue to support, and preferably expand, the unilateral trade preferences of the Caribbean Basin Initiative and the Generalized System of Preferences.

2. Work to review and lower trade barriers against imports from Latin America.
3. Use the U.S.D.A. to assist Latin American exporters in meeting U.S. sanitary and health requirements.
4. Implement new acts of protectionism only if analysis shows they would clearly serve the broader U.S. national interest.
5. Seek bipartisan support for implementation of liberalized, preferential trade policies toward Latin America and the Caribbean, planned to survive changes in U.S. administrations.

#### FOREIGN ASSISTANCE

1. Increase bilateral aid for development assistance, support assistance, and humanitarian assistance, with special emphasis on
  - promotion of U.S. investment and exports;
  - creation of exports and productive employment in Latin America;
  - enhancement of local non-governmental, non-profit institutions;
  - increasing agricultural production and productivity;
  - financing infrastructure projects, particularly in rural areas;
  - education and the use of U.S. educational institutions;
  - additional support for countries whose security is especially important.
2. Support increased multilateral aid through funding of

World Bank and Inter-American Development Bank, to encourage loans for infrastructure projects.

3. Implement foreign assistance on a bipartisan and consistent basis, not in reaction to political crisis.

4. Provide military material assistance as needed, but discourage competitive arms buildups made at the expense of economic recovery.

## THE CARIBBEAN AND CENTRAL AMERICA: NEXT-DOOR NEIGHBORS AS A SPECIAL CASE

### DEMOCRATIZATION, REFORM, HUMAN RIGHTS, INSTABILITY

1. Continue to react strongly to violations of human rights, whether the violators are guerrilla groups, governments, or government-sanctioned private groups.
2. Without applying mechanical formulas, condition aid and support of governments to respect for human rights.
3. Evidence support of human rights by ratification of the International Convention on Civil and Political Rights and the American Convention on Human Rights.
4. Provide significant economic and technical assistance to ease the current socioeconomic crisis.
5. Upgrade and increase military training and exchange programs within the region, emphasizing contact with midlevel officers, management and logistics skills training, and an enhanced U.S. presence in the higher military schools.
6. Continue support for Contadora Group efforts toward a peaceful, negotiated settlement in Central America, while pressuring the Nicaraguan regime toward moderation and pluralism and away from support of insurgency.
7. Make as a goal for agrarian reform the access to land for productivity and higher income for the rural poor.
8. Provide financial assistance, when requested, for population control.
9. Encourage the OAS to help carry out elections, when requested, to assure that all parties may participate in the democratic process.

**EDUCATION AS A COMPONENT OF FINANCIAL ASSISTANCE**

1. Implement technical training projects as a major component of financial assistance.
2. Focus on skills and employment opportunities for rural areas.
3. Support technical training in the United States with language study, and with visa classifications designed to ensure repatriation after training.
4. Use satellite technology to supplement educational programs in rural areas, and provide appropriate receivers for broadcast instruction.
5. Adopt a long-range, consistent program of academic scholarships for various countries, to ensure that students from all social levels are included.
6. Encourage local communities, service organizations, and universities to co-sponsor students from this region.
7. Use binational centers to encourage students to attend U.S. institutions, and provide appropriate scholarship competitions.
8. Strengthen and expand cultural exchange programs.

**IMMIGRATION**

1. Support principles protecting the rights of potential immigrants and those seeking asylum.
2. Assert these principles by diplomatic means and in international organizations.
3. Enact legislation to grant residence status to un-

documented aliens now in the United States.

4. Impose sanctions on those employing undocumented immigrants, while protecting the rights of U.S. citizens and lawfully-admitted immigrants.

5. Establish control over the borders of the United States with due respect for the human rights of persons intercepted.

6. Establish a reasonable, regulated, and orderly migration process for the surplus populations in the Caribbean Basin, including the establishment of special quotas.

#### CUBA AND THE CUBAN-SOVIET THREAT

1. Issue a firm, comprehensive policy to deal with Soviet forces in Cuba and the Soviet-Cuban involvement in Latin America.

2. State clearly to Moscow and Havana that the severe economic crisis in Latin America, regional conflicts, or civil wars cannot be exploited to the detriment of U.S. interests.

3. Avoid actions which magnify the significance of Soviet successes, and avoid the establishment of positions which can be violated with impunity by the Soviet Union.

4. Continue to apply pressures on Cuba to remove its troops from Angola, Ethiopia, and other parts of the world.

5. Use covert actions only when vital to the security of the area, when significant chances of success exist, and when other efforts have no prospect of success.

6. Consider what ends would be served by enhancement of current levels of diplomatic relations with Cuba, continuing to have as goals Cuba's commitment not to export revolution, the removal of Soviet military presence, and the restoration of democracy.

7. Pursue specific accords, on the order of the hijacking agreement, when there is a clear mutual advantage.
8. Weigh the benefits of the Cuban embargo against its use as a propaganda piece by the Cubans, and consider it as a bargaining chip only in negotiations for concessions on fundamental issues.

## LATIN AMERICA'S ECONOMIC CRISIS

The community of Miami is close to Latin America in many ways — through the ties of geographic proximity as well as through commerce and culture. On the "front line" of interaction with this region, we feel a responsibility to report our concerns about Latin America to the national community. At this time, the unanimous observation is that our neighbors to the south are in the grip of an extended economic crisis, which may be equivalent in seriousness to the Great Depression of the 1930s.

Above all, we see the need for these countries to restart their productive sectors. This is their first priority. We believe it is also vital to our own national interest, and should be paramount when considering the worth of suggested U.S. policy options. The concrete recommendations presented in *The Miami Report* are, therefore, designed to aid in improving U.S. policies toward Latin America and the Caribbean, with a strong emphasis on mutual benefit derived from reactivation of the Latin American economies.

Unfortunately, we do not believe the Latin America crisis to be a temporary recession, with recovery coming as a consequence of renewed U.S. economic growth. The magnitude of the region's debt service, which currently consumes about half of export earnings in repayment of interest alone, precludes a long-term recovery. Even the most optimistic projections show Latin American countries facing a future of routine debt extensions, which will demand a growing share of local savings and inhibit future flows of outside funds for development purposes.

The Latin American situation is also having a significant negative impact on our country. The Federal Reserve Bank estimates 250,000 jobs lost in 1982 because of reduced exports to Latin America, which continued their decline in 1983 from \$39 billion to \$21 billion. Increasing security risks within the hemisphere and threats to the stability of our own financial system are tied to the crisis, as well. A large share of Latin America's debt of

\$350 billion is owed to U.S. creditors, and its repudiation would place tremendous strains on large and small banks throughout the United States.

There are three basic views of how the crisis will unfold. The first is, essentially, that economic recovery in the United States and in Europe will pull the debtor countries along. Demand for commodities will generate higher prices, interest rates will hold or fall still further, the price of oil will remain stable, IMF-mandated austerity programs will be maintained without undue social turmoil, and debt rescheduling will ease payment burdens enough that the countries will be able to service their debt.

The second basic view claims that the debt burden is more than the high-debt countries can handle under almost any naturally unfolding circumstances. Even a U.S.-European recovery with high growth will not be enough. Protectionism has intervened to dampen trade resurgence. Proponents of this second view urge various changes:

- reduction of U.S. interest rates (via a reduced federal deficit) to help the recovery along;
- rescheduling of debt principal at concessionary interest;
- creation of various mechanisms for shifting debt (assets) from private ownership (banks) to publicly financed institutions, at U.S. taxpayer expense;
- creation of new mechanisms to stimulate fresh funding into the region, such as reduction of U.S. tariff barriers to goods from certain high debtor countries.

The third basic view anticipates a mega-disaster. The crisis will not go away by itself, and corrective action, even if identified, will not be taken soon enough. Social turbulence in some high-debt country will frighten the country's politicians into repudiating some or all of their debt. This will trigger other country repudiations. Large U.S. banks will face loss of their equity base

or will fail, forcing the United States Treasury and Federal Reserve to step in. With several hundred billion dollars at stake, the U.S. economy will be badly shaken. The repudiating countries will lurch backward in their economic development.

We have come to believe that the second scenario is accurate: that the debt problem, if managed as at present by the IMF, the private banks, and the Latin American governments, will result in a continuously sick continent at the U.S. doorstep. The consequences of this could prove to be a greater and more pervasive threat to U.S. national security than the problem of Soviet influence in the Caribbean Basin, and extremely harmful to the U.S. economy. It is a situation that calls for, and provides an opportunity for, real statesmanship.

We believe it is in the U.S. national interest to respond with policy initiatives designed to avoid an accentuation of North-South polarization, as well as to ease the problems resulting from the Latin American external debt crisis. To accomplish these goals, the U.S. Government must use its influence to place both the IMF programs and bank debt rescheduling on a new and different basis. At present, IMF programs are too narrowly concerned with reestablishing conditions for a new balance of payments equilibrium at a lower level where debt service becomes manageable. Debt rescheduling is being undertaken on a short-term annual basis, where a single debtor faces the combined bargaining power of all his creditors.

Future IMF programs should strike a balance between national sacrifices affecting everybody in the interest of external debt service and real near-term benefits from economic reactivation. Currently, debt rescheduling on an annual, piecemeal basis contributes to the perpetuation of uncertainties that will not reestablish confidence among bankers and investors. Such debt rescheduling also increases the burden of interest and amortization payments in future years, thereby raising the prospects of default and economic stagnation.

Latin America has been traditionally a development area where inadequate internal savings were supplemented by a net inflow of loans and investment from abroad. At this time, the inflows have greatly diminished, and Latin America is becoming a net capital exporting area, in the sense that debt service greatly exceeds the inflow of new funds. This historical shift in the pattern of transferring real resources from the industrialized countries to Latin America has the potential to undermine favorable economic, financial, and political ties between the two groups of nations. The United States must center its Hemispheric strategy around resolution of the debt problem and restoration of the region's economic health.

A sound goal is to lower the net outflow of financial resources from Latin America (or reverse it, if possible) in order to resume economic development. At the same time, however, internal policies should be implemented within these countries to lead to increases in productivity, internal savings, and export growth, as a means to keep external borrowing at levels that are manageable, yet adequate for economic development.

We hold that Latin America's foreign debt problem has grown too large to be overcome solely by any future benefits from world economic recovery. Debt rescheduling, as presently carried out in most countries, entails new borrowings solely to pay interest on past debts; scarce funds available for new investment; a massive outflow of resources; and a deepening regional recession.

The specific U.S. response to this economic crisis can only be effective when tailored to the individual needs of each country. There is no global solution. The range of policy recommendations made here should, therefore, be treated as tools which the Administration can use to craft a set of policies to deal with each country's problems. We emphasize, however, that the primary responsibility for solving economic problems lies with the interested country; the rôle of the United States should be responsive and constructive assistance.

## **Policy Recommendations for Debt Management**

We have grouped our recommendations. The first group provides general guidelines for U.S. policy. The second group provides some specific policies for consideration. The two recommendations of the last group (numbers 8 and 9) are illustrative of more comprehensive programs that must be considered if relatively conservative plans fail to produce the desired results in time. Some participants advocated the immediate implementation of such stronger measures, believing that less comprehensive plans would not produce the desired financial or sociopolitical results.

### **Debt Management Recommendations – I: General Guidelines**

1. We recommend that the United States Government make the reduction of real interest rates an overarching priority. A significant reduction, whether brought about by the reduction of U.S. deficits or by some other means, would accomplish more than any other single action. Without a reduction in real interest rates, no long-term solution can be brought forward which would ease the problems of debt management in Latin America or reactivate its economies.

The least expensive and most efficient way to achieve a meaningful reduction in real interest rates would be to practice what we are preaching to our Latin American neighbors, and to put our own financial house in order. If the United States could bring its fiscal deficit down to the point that interest rates exceed inflation by 2-4%, instead of today's 7-9%, the Latin American debt burden would be more nearly manageable.

New bank borrowings would again become more feasible, and Latin America's ability to recover without write-offs, additional loan loss reserves, or taxes would improve. Under this scenario, the marketplace could indeed reasonably be expected to guide Latin America on a road to recovery.

A reduction in real U.S. interest rates would also be likely to cause the dollar to drop in value relative to other major trading currencies, which would in turn increase the competitive position of Latin American exports to other areas of the world, thereby reinforcing both the region's debt service capacity and its economic recovery.

Without the political will to control the fiscal deficit, the United States faces reduced options, each entailing a major cost, because the cost of reducing real interest rates will have to be absorbed by a combination of the banks and the government, through direct negotiation.

2. We propose that U.S. Government policies with regard to the Latin American debt crisis be guided by three basic principles, which, if fully implemented, would go far toward a resolution of the debt crisis:

- Foreign debts must be restructured, not just rescheduled, in such a way that the annual outflow of interest and principal are within the debtor country's capacity to pay. This will provide an opportunity for Latin American economies to strengthen, and enable them to take on the debt burden more quickly and with a greater probability of long-term success.
- In return, to ensure that the debt cycle does not repeat itself in the future, insist on the implementation of local policies leading to
  - increases in productivity,
  - generation of internal savings,
  - a dynamic private sector,
  - more liberal treatment of foreign investment,
  - export diversification,
  - withdrawal of subsidies and privileged treatment for un-economic industries,
  - restraint in military budgets, particularly expenditures on imported military hardware.

- Develop the new debt service program so that current creditors do not lose confidence to the point where they will severely restrict future loans to Latin America. The difficulty seen recently in obtaining new money from existing creditors as part of IMF loan packages is evidence of the current negative attitude toward future lending.

### **Debt Management Recommendations – II: Specific Measures**

3. We recommend that consideration be given for the Federal Reserve to provide long-term funding at the government rate (about 11.3% today for 20 years) to banks. Such lending should be directly tied to productive purposes. The banks would, in turn, agree to pass on the savings in financing costs directly, without markup. This program would require no incremental burden to U.S. taxpayers, would provide significant benefits to qualifying debtors, and could be accomplished without a transfer of assets. However, it is not clear whether such a plan could be implemented without special legislation.

4. The Federal Reserve Board should review and liberalize its policies on loan classifications, to encourage banks to extend interest rate concessions in exchange for viable rescheduling agreements.

5. Rescheduling fees and other up-front fees charged by banks should be discouraged.

6. The United States should consider converting a portion of debt owed in connection with foreign assistance to local currencies, on a selective basis. The funds could then be used for U.S. Government expenditures within these countries, including embassy, consulate, cultural center, and USAID programs, as well as for funding new non-loan-based programs of development assistance. The United States should encourage other industrialized countries to do the same.

7. The United States should make available, through the Overseas Private Investment Corporation (OPIC) or another appropriate agency, convertibility insurance, on a fee basis, for U.S. banks willing to make working-capital loans to Latin American clients, or to increase the amount of existing loans for a given project. These loans would be aimed at the promotion of exports, and could be either for the industrial sector or for agriculture (e.g., for crop financing).

### **Debt Management Recommendations – III: Examples of More Comprehensive Programs Suggested by Certain Participants**

8. U.S. Government policy on debt management should be to use its influence to make the IMF the focal point of debt restructuring. This organization possesses the prestige, expertise, and power necessary to carry out the action steps required, while maintaining the confidence of creditors and borrowers in the process. Specific recommendations include the following:

- The IMF should, with international bank cooperation, offer to negotiate with each country a restructuring of its total external debt so as to lighten the annual debt service burden to the point where it no longer prevents economic reactivation. The size of the installment should also reflect the ability to make payments without creating more unemployment, social tensions, bankruptcies, and declining real incomes. A total debt restructuring would promote greater confidence among investors and bankers than annual, piecemeal reschedulings. The annual installments should conceptually include principal and interest, and be designed similar to a fixed-rate home mortgage. As interest rates applicable to the existing debt rise or fall, so should the interest component in the installment payments, while the principal component rises or falls inversely to the interest component. Thus, the length of the repayment schedule becomes flexible. Should interest alone exceed the total installment, then the IMF would lend the additional amount to the country in question, to enable it to make the full interest payment to the

banks. Thus, the IMF would assume that part as new debt.

- The restructuring will be done only if a government agrees to implement a series of internal policy recommendations designed to
  - increase export diversification, productivity, and internal savings;
  - strengthen the private sector; and
  - liberalize foreign investment regulations.

The central objective of these internal policies would be to strengthen the country's ability to generate internal resources for both economic development and debt servicing, while limiting new borrowing requirements. Latin American governments would be more willing to accept these policy recommendations, if they are associated with a significant lightening of debt service, not just in one year, but for the long term. A total debt restructuring would help promote greater confidence for investors and for bankers than would annual, piecemeal rescheduling.

- A mechanism should be instituted to guarantee the principal and interest of the rescheduled loans. The IMF is the logical guarantor, and its use should be considered before the creation of any new agency. Because the risk of debt default would thus be removed for the banks, they should remove front-end fees and lower or eliminate the interest premium over LIBOR or U.S. Prime. These measures alone could lower interest payments for Latin America by \$10 to \$12 billion per year. This reduction would enable the IMF to lower the annual debt service to a manageable level. To avoid an outright bailout of the banks, interest rates on the rescheduled loans should be lowered to the banks' cost of funds, or below. This would satisfy the political demands for some retribution from the banks for the debt rescue, make it easier for the borrowing countries to meet their installments, and assess a penalty to the banks which they could still handle.
- As economies and their export performance strengthen, or as inflation reduces the relative debt service size, installments

could be raised by negotiation. However, it should be recognized that countries will already have additional payments from new loans.

- The resources of the World Bank should be expanded to enable it to take over from foreign banks a rising share in long-term lending for development projects to help speed up economic reactivation.

This policy recommendation, if implemented, would require little or no up-front money from the U.S. Government. It would avoid placing a disproportionate cost or penalty on any of the groups involved in the debt problem. As long as the program is successful, there will be no need for the U.S. Government to cover its share of the loss resulting from a loan default guaranteed by the IMF. As the steps are interrelated, however, at least the first four must be implemented together to assure the success of the program.

9. Dollar loans to private companies cannot normally be rescheduled as easily, and on the same terms as, loans held by the public sector, due to differences in credit risks. One means of resolving this problem would be for debtor governments to adopt a program to exchange existing dollar loan balances held by the private sector for an equivalent amount of local currency (plus some formula to share the risk of future devaluations). Once the dollar loans are incorporated in the public sector debt, they can become part of a uniform debt restructuring.

Consider the following example:

Assume that a private local company owes \$1 million to a large U.S. multicenter bank. The Central Bank absorbs the loan directly and incorporates it as part of the overall sovereign debt at terms (rate and maturity) equivalent to other similar dollar debt. The Central Bank then opens a line of credit with a local bank with a fixed maturity at the official exchange rate. The local bank then extends a local currency loan with the same maturity, at the same rate (plus a spread of perhaps 2%, also at the official

exchange rate).

The private company repays the principal of the local currency loan at the end of the term. It pays the local currency equivalent of the original principal at the official rate of exchange, plus an exchange rate premium. During the life of the loan, the private company pays interest only at a rate equal to the Central Bank rate plus a spread. This interest rate is fixed over the term of the loan.

The above debt policy recommendation, if implemented, would avoid forcing any of the groups involved in the debt problem to shoulder a disproportionate cost or penalty. For the government, this conversion mechanism improves management of dollar debt. It places all bank dollar debt on the same terms. It provides for long-term viability of the private sector, without total "bailout" and without *de facto* nationalization, as was the case with Petroven in Venezuela. The credit risk stays with foreign banks.

From the point of view of the private companies, the conversion mechanism fixes the total exchange rate risk for the term of the conversion loan. It buys time in which to adjust revenues and expenses to provide for remaining risk. There is a fixed maturity. There is no unexpected or unpredictable drain on cash flow. The private company does not have to "borrow" an exchange rate premium. Thus, it is possible to borrow less in local currency through the conversion mechanism. The exchange premium becomes a fixed fee. The private company also has the advantage of a fixed interest rate prescribed over the life of the loan.

From the U.S. bank's point of view, the conversion mechanism provides the ability to keep maturities to the private sector shorter than to the public sector. This shorter term reflects or matches the extent of the credit risk in the private sector. The bank has a "good" loan, which could be made though its local branch, preserving private participation with a more viable private sector.

From the point of view of the United States, such a scheme recognizes that the long-term health of a developing country depends on the health of its private sector. The conversion mechanism aids in restoring the health of the private sector. The scheme restores health by converting existing dollar debt to local-currency equivalent, while maintaining some responsibility for future exchange devaluations. In addition, the availability of such financing conversions should assist with export expansion, and should promote infusion of new capital funds needed by the high-debt country.

## **Policy Recommendations for Direct Private Investment**

The economic distress of the high-debt countries of Latin America and the Caribbean has, of course, had a pronounced impact on private investment activity there. Flows of capital, technology, trade, and financing have been disrupted. U.S. investment positions have been sustained in many of these countries by abnormally high levels of financing from parent companies. By keeping their local subsidiaries in place, U.S. multinational companies have helped lessen the crushing impact of lost employment, lost tax revenue, and reduced operating capacity within the productive sectors of these economies.

Some observers have doubted that retained or expanded private investment is sizeable enough within the region to make a notable difference in restoring economic momentum. They point to statistics showing the aggregate U.S. investment position in Central and South America to be approximately \$30 billion. This figure understates the economic presence of U.S. subsidiaries in these countries, reflecting as it does only registered investment or stated capital, which are measures only of initially committed funds. Ongoing intra-corporate financing, trade financing, arranged bank financing, and other funds flows are not included. These, if measured, would reveal a presence several times larger than the reported investment statistic.

For at least a substantial minority of these U.S. companies invested in Latin America, the question today is not whether they will make new investment, but whether they will resist pressures to reduce the size of their operations or even withdraw. In the face of discouraging returns on committed resources over the last several years, and a prospect of further discouragement in the near future, many corporate executives are reconsidering their long-term commitments in the region. With traditional bank financing for corporate activity in the area now curtailed, companies are resorting to higher-than-customary levels of self-financing. There are limits to a company's willingness to self-finance; these are strongly influenced by longer-term prospects.

The prospects in Latin America are clouded by two factors. First, it is difficult to forecast when recovery can be expected in these economies. No-one is predicting an uptrend in 1984; few are in 1985; many look to 1987 or beyond for some restoration of growth in the area. Second, inhibiting Latin American "rules of the game" may remain inhibiting. Though troubling to investors, government-imposed investment limits and operating constraints were bearable during more prosperous times. Corporate planners may well ask now whether it is worthwhile to continue to dedicate resources to Latin America through prolonged periods of difficulty, if the same discouraging rules will emerge when recovery finally comes.

Wrestling with lender-mandated austerity, stymied by export trade constraints, and burdened with debt service, one of the few open options for the high-debt countries is to balance their national debt/equity ratios somewhat by welcoming foreign direct investment. There is, however, little concrete evidence, that officials in Latin America are moving in this direction. Moreover, world class technology, which frequently accompanies direct investment, and which could help boost regional export competitiveness, is often withheld from Latin America because of misguided rules designed a decade ago to acquire such technology cheaply.

It is unlikely that investors will commit significant new resources to the region today, except for long-lead-time projects timed to catch a recovery. An improved set of investment and operating rules, if enacted soon, would serve chiefly to hold in place already-existing positions. In addition to actions which high-debt country officials can take, we note a range of specific actions for consideration by U.S. Government officials. Some of these suggestions also point to action by international agencies. Our recommendations take each of these three major factors into consideration:

- direct incentives by which the United States Government can encourage private investment in Latin America and the Caribbean;

- U.S. influence on international agencies;
- U.S. influence on host countries.

Specifically we recommend the following:

1. The United States should extend authority for OPIC and the Exim Bank to facilitate freer investment and financing flows and add protection for U.S. investors interested in Latin America and the Caribbean

- by maintaining sufficient equity in OPIC to allow for expansion of its operations;
- by reducing the percentage of U.S. ownership that a foreign corporation must have to qualify for OPIC coverage;
- by expanding OPIC insurance to cover a company's existing investments in a country as part of a new investment package in that country;
- by granting OPIC authority to guarantee bank loans for both capital and working capital in insured projects.

2. The United States should structure an investment tax credit, on a selective basis, and for a limited period of time, for U.S. firms using American-made equipment and material for investment in Latin America and the Caribbean.

3. The U.S. Government should continue to encourage international agencies, such as the IMF and the IFC, to foster a favorable investment climate in Latin America and the Caribbean.

4. The United States should effectively upgrade and strengthen the Department of Commerce, the Office of the U.S. Trade Representative, and appropriate sections within U.S. embassies to increase their visibility and effectiveness in promoting U.S. investments in Latin America and the Caribbean:

- by increasing budget allocations to assign more skilled individuals.
- by encouraging commercial attachés to serve as intermediaries between host governments and U.S. investors who seek such service.

5. The United States should recognize and encourage existing organizations, such as the Council of the Americas, which facilitate opportunities for officials from Latin America and the Caribbean to meet for continuous discussion of mutual investment interests with U.S. investors.

6. The United States should continue strong support for fair compensation in cases of expropriation or nationalization of U.S. private assets in Latin America or the Caribbean.

7. The United States should encourage the use by Latin American governments of the World Bank's International Center for the Settlement of Investment Disputes as a third party arbitration facility for settlement of investment disputes, where appropriate, between governments and private investors.

8. The U.S. Government should continue to promote the creation of international insurance programs covering expropriation, war, and convertibility.

## **Policy Recommendations for Trade**

Deep cuts in new lending to Latin America by foreign commercial banks have caused acute foreign exchange shortages. This has forced governments to reduce imports to the point of creating a recession, in order to produce sufficient trade surpluses to generate the foreign exchange necessary to cover interest payments on their external debt. These low levels of imports will in most cases not be sustainable. However, large trade surpluses also need to be maintained to meet interest obligations, and thus to begin to restore banker confidence for some renewed lending activity. If the countries succeed in expanding export earnings, such activity will be more likely.

Economic recovery in industrial countries is likely to be too gradual, and competition among indebted LDC countries too severe, to generate a substantial recovery in Latin America's commodity export prices. The ability of the local private sector to develop exports dynamically has been weakened by reduced and more expensive trade credits, by more expensive imported components and raw materials, and by other effects of the recession and the debt crisis. On the other hand, large devaluations and declining real wages have improved the competitiveness of Latin America's exports; excess capacity caused by shrinking domestic markets has provided an incentive to export; and the crisis in balance of payments has given an additional urgency to the need for expansion of Latin American exports.

Unless Latin American exports grow, insufficient foreign exchange will be generated to purchase products in the United States and to service the debt to U.S. banks. Thus, Latin America's trade prospects directly affect the U.S. economy.

Therefore, we recommend the following:

1. The U.S. Government and Congress should continue to support strongly, and preferably should expand, the unilateral trade preferences established under the Caribbean Basin Initiative and the Generalized System of Preferences (GSP).

2. A commission should be formed to review all recent impositions of U.S. trade barriers against imports from Latin America. Its aim should be a lowering of trade barriers, either permanently or temporarily during the period in which these countries suffer from an acute balance of payments crisis. A lowering of U.S. trade barriers on imports of sugar, other agricultural products, cotton yarn, and specialized steel, for example, would significantly help a number of countries to raise foreign exchange earnings and their capacity to import from the United States.

3. The U.S. Department of Agriculture should assist Latin American exporters in meeting U.S. sanitary and health requirements. U.S. marketing regulations and official grading standards that currently discourage Latin American agricultural products from the U.S. market should be reviewed and liberalized, if feasible. During off seasons, trade barriers should be temporarily removed on off-seasonal perishable product imports from Latin America.

4. New acts of protectionism that would significantly affect one or more Latin American countries should be implemented only after an analysis shows that they would clearly serve the broader U.S. national interest.

5. U.S. bipartisan support should be sought for the implementation of liberalized, preferential trade policies toward Latin America and the Caribbean, in order to survive future changes in U.S. administrations.

## **Policy Recommendations for Foreign Assistance**

In the past, U.S. and other private banks had taken over a growing share of lending to Latin America and the Caribbean. However, these banks have now either reached their lending limits, or view the risks the additional lending to Latin America to be excessively high, or are engaged in difficult debt reschedulings. As a result, loans for economic development from private sources will remain greatly reduced in the future, and will be totally inadequate for Latin America's economic reactivation. The effects of reduced lending are a region-wide recession, rising unemployment, illiquidity, and widespread private-sector bankruptcies.

As a result of falling revenues and of commitments to the IMF to cut deficits, national government budgets are being reduced. Throughout Latin America, this reduction has resulted in important public sector energy and infrastructure development projects being abandoned. Clearly, foreign aid and loans from international lending institutions will need to regain some of the importance that they held prior to the boom in commercial bank lending, if economic reactivation in Latin America is to succeed.

U.S. foreign assistance should be viewed by our legislators, and effectively portrayed to the American public, as

- an investment in this country's own security, particularly when directed toward the Caribbean Basin; and
- a factor which will stimulate, not retard, U.S. foreign trade and jobs in the United States, and which will help reduce our trade deficit.

Most members of the Miami community do not feel qualified to quantify the amount of increased foreign aid necessary for the region, nor do we choose to stipulate a desirable bilateral/multilateral aid ratio. Nevertheless, in discussions within our community, some definite policy views emerged regarding the directions and shape of such assistance.

Specifically, the Miami community recommends the following:

1. That increased *bilateral aid* reflect the main legislative thrusts of development assistance, support assistance, and humanitarian assistance (following the guidelines of PL-480), and that it place special emphasis on these goals:
  - The promotion of U.S. investment and U.S. exports;
  - The creation of exports and productive employment, and the stimulation of local entrepreneurs;
  - The enhancement of local non-governmental, non-profit institutions, by channeling aid directly to them whenever possible;
  - Increased agricultural production and productivity, through the transfer of the latest agrotechnology and the teaching of effective marketing techniques;
  - Increased assistance to facilitate access to U.S. markets;
  - Financing infrastructure that will lead to the creation of productive jobs in the future, particularly in rural areas;
  - Much greater emphasis on education and the use of U.S. educational institutions with programs that meet local needs;
  - Generous funds, on concessionary terms (preferably on a grant basis or repayable in local currency), for countries whose security is especially important to the United States (such as Jamaica and Panama).
2. The United States Government should support increased *multilateral aid* by adequately funding the World Bank and Inter-American Development Bank, so that these institutions can offer long-term loans for needed infrastructure projects at subsidized interest rates, in order to help reactivate the economies of

those countries that are carrying out the policies recommended by the IMF and are successfully managing their external debt.

At the same time, however, the U.S. Government should communicate to debtor governments that the United States favors open-market economic systems, and policies which do not adversely affect the private sector disproportionately. In that connection, the private sector of the economy should be stimulated to resume full activity, particularly as regards the allocation of available foreign exchange and access to internal and external credit.

3. Foreign assistance policy should be formulated and applied on a bipartisan and consistent basis, not simply as a reaction to a perceived political crisis.

4. Military assistance policy should be based on national security considerations, but also on the view that

- a protective shield is urgently needed by some countries to enable them to guard against Marxist subversion; and

- governments will buy the weapons they desire, with or without the approval of the U.S. Government. Therefore, the United States should facilitate the sales of arms by U.S. manufacturers, both for trade promotion and to forge alliances with Latin American military establishments. Our policy should, at the same time, discourage competitive arms buildups made at the expense of economic recovery or of coping with the debt crisis; or the escalation of sophisticated military technology beyond levels reasonably needed for security.

## The Historical Development of Latin America's Financial Crisis

Latin America was the fastest-growing continent in the world during the decade prior to the start of the energy crisis in 1974. Even during the subsequent six years, when the rest of the world was struggling with the effects of the energy problem, Latin America managed to achieve a respectable rate of economic growth of nearly 5% per year. Since 1981, the region finds itself in the midst of its worst recession in fifty years, with only scattered recovery. The weighted average of Latin American economic growth tumbled to zero in 1981, to negative 1% in 1982, and may reach an unprecedented negative 5% in 1983. The recession has affected all countries in the region. All nations of Latin America and the Caribbean will face problems associated with negative economic growth this year, as the estimates in Table 1 demonstrate.

The basic causes of Latin America's current economic crisis are both a series of unpredictable negative external influences and inadequate and inefficient internal policy adjustments. Faced with a steep increase in oil import prices in 1973-1974, Latin American governments decided to expand external borrowing as the means for paying the higher costs of oil and other imports, and for financing new or continuing social or industrial projects. As a poor developing area with low incomes and savings, yet strong social pressures stemming from high population growth and urbanization, Latin America was a traditional importer of capital. In the past, external borrowing was used essentially to finance trade and development, which then generated foreign exchange earnings or savings. This continued to be true for many of the largest borrowers, such as Venezuela, Mexico, and Argentina. However, external borrowing was used by Brazil and other nations to pay the higher price of oil. As a result, no additional foreign exchange was created to service the external debt. Alternative adjustment policies for Latin American governments would have been to adopt both austerity measures to reduce internal demand, and appropriate foreign exchange policies designed to transfer abroad the excess of production.

**Table 1**  
**Real GDP Growth Rates – ½% Year**

	<u>1970-80</u>	<u>1981</u>	<u>1982</u>	<u>1983(est.)</u>
<u>Major Countries</u>				
Argentina	2.6	-6.1	-5.0	-1.0
Brazil	8.1	-1.9	1.5	-5.0
Chile	3.0	5.5	-14.1	-4.0
Colombia	5.9	2.5	1.4	-1.0
Mexico	5.5	6.5	0.2	-6.0
Venezuela	4.3	0.3	0.6	-5.0
<u>Caribbean Basin</u>				
Costa Rica	4.5	-3.6	-6.0	-4.0
El Salvador	3.0	-17.8	-6.0	-6.0
Guatemala	5.7	1.0	-3.5	-2.0
Honduras	4.1	0.3	-1.5	-2.0
Nicaragua	0.8	5.9	-5.0	-10.0
Panama	3.9	3.6	0.0	-3.0
Dominican Republic	6.1	3.4	1.5	-2.0
Guyana	-1.0	-0.7	0.4	-8.0
Jamaica	-3.5	2.0	0.2	-3.0
<u>Others</u>				
Bolivia	5.0	-2.0	-9.2	-8.0
Ecuador	7.5	4.0	1.4	-5.0
Paraguay	7.7	8.4	-2.5	-5.0
Peru	3.5	3.9	1.0	-7.0
Uruguay	2.6	-0.8	-9.5	-5.0
Total Latin America	5.6	0.0	-1.0	-5.0

Sources

1970-81 Data from ECLA

(UN Economic Commission for Latin America)

1982 Data published by local government sources

1983 Data estimated by Siegfried Marks

Understandably, Latin American governments hesitated to interrupt the internal growth process with measures that would have depressed employment and incomes, particularly when foreign banks were anxious to lend, and the energy crisis was believed to be only temporary. In addition, several countries had overvalued exchange rates, which helped control inflation. These exchange rates discouraged export growth, but further encouraged a large influx of capital from abroad. U.S. and other foreign banks were witnessing unprecedented economic growth in Brazil and elsewhere in Latin America and, therefore, judged that the growing economies could handle an expanding debt service. The high spreads on loans, paid by Brazil and some other countries, provided an added lustre to lending to Latin America.

The combination of export expansion and import restraints was proving successful in bringing Latin America's foreign trade almost in balance in 1977-78, when another steep oil-price increase occurred in 1979-80. This was followed closely by a recession in the industrial countries and falling commodity prices, causing a drop and slowdown in Latin American export performance while imports accelerated.

The two oil price shocks can be viewed as a major cause of Latin America's current economic crisis. In 1974, a 50% increase in Latin America's exports proved insufficient to cope with a doubling in imports. Hence, the trade deficit rose from a manageable \$2 billion to an unmanageable \$12 billion. This situation was repeated exactly when exports rose 68% from 1978 to 1980, but imports increased 100%, thus causing Latin America's trade deficit nearly to triple (Table 2). This sudden new crisis, caused by a 60% jump in world oil prices during a short span of 12 months, compelled those Latin American countries which were neither self-sufficient in petroleum nor petroleum exporters to accelerate external borrowing.

Latin America's economies were dealt further blows by the inability of the United States Government and Congress to control the fiscal deficit, and by the restrictive monetary policies of the Federal Reserve Board. The strengthening of the U.S. dollar, to

**Table 2**

**Latin American Foreign Trade  
(excluding Venezuela)  
(Current \$ Billions)**

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1955	7	7	0
1960	7	8	-1
1965	9	10	-1
1970	13	15	-2
1972	16	19	-3
1973	23	25	-2
1974	34	46	-12
1975	33	47	-14
1976	38	47	-9
1977	46	51	-5
1978	50	57	-7
1979	65	76	-11
1980	84	103	-19
1981	89	110	-21
1982	82	83	-1

Source:

Data from IMF's *International Financial Statistics*.

which Latin American currencies are tied, further eroded the competitiveness of Latin American products vis-à-vis exports from other areas. The steep increase in LIBOR and U.S. prime interest rates in 1981-82 can be considered as helping push the Latin American continent closer to widespread bankruptcy and default.

While oil prices and U.S. interest rates must be considered a cause of the Latin American financial crisis, serious consideration must also be given to the whipsaw effects of the world recession, which followed an extended period of inflation and high commodity prices. The recession affected the whole world economy, and put tremendous pressure on Latin American countries, whose high volume of imports and import commitments could not be readjusted quickly enough to match the precipitous fall in commodity prices and demand, which sharply reduced exports and export earnings.

The banks suddenly saw the risks of debt service deferment or default rise, and began making new loans available on an increasingly short basis. When Mexico, facing short-term debt repayments of \$26 billion and interest payments of \$9 billion, declared a moratorium on repayment of principal, foreign banks virtually stopped new lending to Latin America within the succeeding six months. This, in turn, forced most Latin American countries to fall further in arrears in amortization and interest payments; to declare major devaluations; to impose exchange controls to stop escalating capital flight; to suspend dividend and other financial remittances to foreign investors; and to approach the IMF, the banks, and the creditor governments for emergency loans and debt rescheduling.

In the ten-year period from 1973 to 1983, Latin America's total short-, medium-, and long-term public and private external debt expanded tenfold, from \$35 billion to \$350 billion. About 30% to 35% of this debt is short-term, falling due within the next twelve months. As 70% to 80% of this debt was contracted on a floating-rate basis, both new loans and most existing loans were affected directly by the U.S.-inspired rise in world interest rates. Within an

eighteen-month period, some Latin American governments saw their floating interest rates rise from 8% to as much as 20% on an annual basis, before subsidizing somewhat in 1983. Each 1% increase in interest rates meant \$2.7 billion additional annual debt service.

For Latin America, the debt crisis is much more serious and pervasive, and will have a more lasting impact, than the energy crisis. While oil imports will run about \$11 billion in 1983, interest payments will amount to nearly \$45 billion, or 50% of total Latin American export earnings. Clearly, although it would be impossible to achieve, Latin American countries are being requested, or pressured, to produce a trade surplus large enough to cover interest payments.

In fact, Latin America has appeared to be on the verge of achieving the impossible. Latin American governments are in the process of making major adjustments, aided by the deepening recession forced upon them by their reduced borrowing ability. In the case of the six major Latin American countries, imports were reduced by an average of 44% in real terms between 1980 and 1983 (Table 3) in efforts to limit external borrowing and a further loss of depleted reserves, and, additionally, to stabilize the balance of payments.

However, a comparison of the balance of payments of 1982 versus 1981 for these six major Latin American countries reveals that the benefit from a substantial cut in imports (lower by \$16 billion) was almost eliminated by falling exports earnings (\$8 billion) and higher interest payments (\$7 billion) (Table 4). In 1981, new capital inflow, mostly new loans, or \$35 billion covered the shortfall in the current account balance. In 1982, however, a \$20 billion drop in net capital inflow, primarily caused by capital flight, interest payments, and the banks' reduced lending, left a large balance of payments deficit, which then had to be covered by a one-third loss in reserves. Net lending to all of Latin America dropped precipitously, from \$31 billion in 1981 to \$12 billion in 1982.

**Table 3****Imports of Major Six Latin American Countries**

% of GDP	Real Imports (1983 \$ Billions)			Imports as	
	1980	1983	% Decrease	1980	1983
Argentina	10.7	5.0	(53)	14	7
Brazil	26.0	15.5	(40)	9	5
Chile	6.2	3.0	(52)	30	16
Colombia	5.0	4.0	(20)	16	13
Mexico	21.0	9.0	(57)	12	6
Venezuela	<u>12.8</u>	<u>8.5</u>	<u>(34)</u>	<u>23</u>	<u>17</u>
Total	81.7	45.0	(45)		

Sources:

1980 Data calculated from IMF's  
*International Financial Statistics.*

1983 Data based upon monthly data furnished by local  
government sources and the IMF plus estimated  
for remaining months by Siegfried Marks.

**Table 4**

**Balance of Payments  
of Major Six Latin American Countries:  
Argentina, Brazil, Chile, Colombia,  
Mexico, Venezuela  
(Current \$ Billions)**

	<u>1981</u>	<u>1982</u>	<u>Change 82/81</u>	<u>1983</u>	<u>Change 83/82</u>
Exports	79	71	(8)	75	4
Imports	(77)	(61)	16	(45)	16
Trade Balance	2	10	8	30	20
Interest/Other					
Financial	(23)	(30)	(7)	(32)	(2)
Other Services	(10)	(8)	2	(9)	(1)
Current Account					
Balance	(31)	(28)	3	(11)	17
Loans, Investment, Payment Arrears					
(Less: Amortization, Capital Flight)	<u>35</u>	<u>15</u>	<u>(20)</u>	<u>9</u>	<u>(6)</u>
Balance of Payments	<u>4</u>	<u>(13)</u>	<u>(17)</u>	<u>(2)</u>	<u>11</u>

Source

1980/81 Data computed from IMF plus same sources as Table 3.

### Near-Term Difficulties

For 1983, an even steeper decline of another \$16 billion in imports is expected, due to the commitments to the IMF and the banks, to the scarcity of foreign exchange, and to a demand decline caused by the deepening recession. Large devaluations, the U.S. recovery, and some improvement in commodity prices are, however, having only a small effect on export performance, as Latin America's export sector has been weakened by bankruptcies, by debt burden, by unavailability of credit; by shortage of foreign exchange both for retooling and for imports of materials, and by the negative competitive effects of a strong dollar and high interest rates. Therefore, it is the extreme cut in imports that will lift the trade surplus for these six major countries from \$10 billion in 1982 to an unprecedented \$30 billion this year. This trade surplus will nearly cover total interest payments and other financial remittances.

An analysis confined only to statistics would indicate that Latin America is coping with, gaining control of, or emerging from its debt crisis. Unfortunately, underlying negative trends continue to dominate and give rise to our pessimism:

- Countries are generally falling deeper into financial and commercial arrears or are reducing payments temporarily. Meanwhile, banks are reducing short-term lending levels, tightening terms, and generally failing to make new loans, except when pressured to as part of debt rescheduling. Also, new lending to Latin America by international development institutions has turned negative. Some IMF targets are not being met and have to be revised and renegotiated. Finally, problems with debt rescheduling in Brazil, Venezuela, and Argentina will not contribute to banker or investor confidence – an absolute prerequisite for successful economic reactivation.
- A small rise in world interest payments would be sufficient to raise Latin America's interest payments enough to offset the current modest export gains.

- The prolonged foreign exchange shortage in Latin America and the continued strong position of the U.S. dollar will require more devaluations and high real interest rates in Latin America, retarding economic recovery and raising public sector deficits.
- The sluggishness of Europe's recovery will hamper improvements in commodity prices and prolong tendencies to protectionism. Nearly a doubling of Latin America's commodity export prices would be necessary to cover annual interest payments without increasing overall debt.
- Latin American imports have been reduced to unsustainably low levels, causing damage to the private sector and to U.S. export industries, delaying economic recovery, and impeding Latin American export growth. New funds which have been extended are not being used for investment in expansion of production capacity.
- Prolonged austerity is producing social and political unrest, further damaging the private sector and the bankers' confidence in Latin America's future.

If these negative trends continue or intensify, financial and commercial arrears will lengthen, forcing some creditors into openly declaring some countries in default and attempting to enforce collection.

Currently, Latin American governments find themselves between conflicting pressures from the IMF and the banks to continue austerity programs until the debt problem becomes manageable, and from domestic forces insisting on reactivation of the economy. If the recession continues, governments and government economic teams will likely be displaced for their record of unsatisfactory economic performance and close cooperation with the IMF and foreign banks. New governments will have a strong popular mandate for economic reactivation on more nationalistic lines and independence from the IMF and the banks. The temptation will arise not to use the growing trade surpluses

to pay interest to foreign banks, but to cut this "dependency" by placing foreign trade on a cash basis, or by increasing imports to create employment. These new political forces will not have the experience of the benefits from increased bank lending, but may instead see the banks and the IMF as instruments of the industrial nations, designed for retarding the development and economic independence of LDC countries.

## CENTRAL AMERICA AND THE CARIBBEAN: NEXT-DOOR NEIGHBORS AS A SPECIAL CASE

While the economic and political crises that affect all of Latin America have an urgency and a particular relevance for the United States, *The Miami Report* participants have repeatedly expressed the idea that the countries of the Caribbean and Central America, and Mexico, should have a special demand on the attention of U.S. policymakers. Each of the problems outlined in the sections dealing with debt, liquidity, and insurgency have a special importance in terms of those nations that are the closest southern neighbors of the United States. Many of the topics dealt with in general terms in the discussion sessions of *The Miami Report* were seen as directly affecting the United States, in the most immediate sense, in their Caribbean and Central American manifestations.

The Miami community has a special concern for the Caribbean Basin and special knowledge of the area, based upon such factors as contact in business, immigration from the region, and the impact on South Florida's economy of political and social events there. The problems of the Caribbean Basin are complex; they cannot be explained by any simple theory or solved by any single policy decision. Nor can one blame all of the region's troubles on its place as a pivot of East-West confrontation, on the effects of North-South economic problems, or on the emergence of political forces bent on reforming (or replacing) unjust and unresponsive national governments. Bearing in mind that the diverse elements of these problems are intertwined, *The Miami Report* participants found it useful to make recommendations under several specific headings:

- Democratization, reform, human rights, instability
- Education as a component of financial assistance
- Immigration

- Cuba and the Cuban-Soviet threat.

The application of a particular mix of policies to each individual country will naturally depend on that country's realities and its relations with the United States. The one common thread that should be woven through all of the policies is a long-term commitment by the United States to political independence, economic viability, and human rights within the region.

The United States cannot afford to have any of these nations under the influence of any unfriendly superpower. To deter such influence, we must forge responsive, bipartisan policies, using the Caribbean Basin Initiative as a framework. These policies, like the commitment from which they are derived, must be positive in tone, active in application, and permanent in our relations with these countries in periods of crisis and of normalcy.

**Democratization, Reform, Human Rights, Instability**

The democracies of Latin America and the Caribbean are under extraordinary pressure from the continuing debt and liquidity problems detailed earlier. These countries, some with fairly fragile democratic institutions, are no less likely to face political difficulties than are the authoritarian states which have most frequently been the target of most of the insurgent activity in the last two decades. Severe austerity programs, such as have been mandated in Brazil and Mexico, are certain to cause some fraying of the social fabric in those countries, even with their large economic bases. Such austerity measures can be expected to put great pressure on the small states and microstates of the Caribbean and Central America.

It is not certain that local dissident groups, with or without active Cuban and/or Soviet interest in exacerbating the situation, can be successfully countered by the countries of the region without U.S. assistance. Many participants felt that the United States needs a policy to deal with the inevitability of more insurgent movements arising in the next one to three years, as the Latin American economic crisis continues.

There is a danger, however, of seeing subversion at each outbreak and fissure in the social fabric. Often the people organizing or marching to protest government policy are not the agents of any foreign power, or even insurgents, in any coherent sense. They are the frustrated, the unemployed, and the hungry, who have legitimate distress to communicate to their governments. The only organized opposition in some of these countries is closely identified with leftist forces, either socialist or communist. The left has often been the source of those few trained leaders who are able to mobilize large numbers of people, and whose presence serves as a multiplier for the degree and style of public protest.

There are in most countries of Central America and the Caribbean conditions of inequity and other legitimate grievances which can be actively exploited by indigenous or external

groups. The nature of dissent and level of its intensity produced in such situations depend in large part on the degree of responsiveness found in the local government. Generally unresponsive regimes, such as are frequently found in Central America, have succeeded in the suppression of much dissent throughout the last several decades. The injection of weapons, propaganda support, safe havens, and extraterritorial training for selected dissidents have all made continuing control by established governments more difficult throughout the region. Frequently, the common factor in areas of enhanced conflict is Cuban activity, either in the form of material support, or through advisors to groups opposing the regime in power.

Objectively a small country, Cuba, with the second largest military force in Latin America, exercises great influence on the affairs of the world, and even more dramatically within the countries of Central America and the Caribbean. In considering the nature of Castro's position as a surrogate for Soviet interest and activity, participants mentioned that it would be impossible for a country of the size and economic condition of Cuba to have a military presence in Africa on the basis of its own resources.

If the increasing economic problems and generally unresponsive governments of the region provide fertile ground for insurgency throughout the area, the United States must be prepared to respond. Several participants emphasized that the goal for U.S. policy should be a recognition and correction of the conditions that have led to subversion, instead of *a post hoc* crisis management approach mandated by the diplomatic equivalent of panic. The conditions of inequity that pertain have been in place in some countries for centuries; U.S. policy should focus on the eradication of the conditions over and above the political conflict that they have helped foster.

At the same time that there was strong support for continued forceful efforts on the part of the United States to help control the outbreaks of civil violence by diplomatic pressure on possible aggressors in the region, there was strong opposition by some participants to the injection of U.S. military forces in Central

America. Nevertheless, other participants articulated the hope that the United States would give vigorous material and financial support to friendly governments in the region that are under the pressure of insurgency, to ensure that there is not a gradually evolving bloc of nations under unfriendly dictatorships.

A strong network of communications, which would do much to prevent such an occurrence, should be a major goal of U.S. military policy in the Western Hemisphere. The constant flow of trainers and trainees, a valuable source of formal and informal influence a decade ago, has dwindled, with a real loss of information and contact. The United States provided training for many of the officers now at senior levels in the military within many Latin American nations, but the restricted levels of such training have left an entire generation of officers without the positive contact of time spent at military facilities within the United States or with U.S. military trainers.

The most effective military training would be that oriented to management and technology, including air traffic control, language instruction, logistics, maintenance, computer utilization, and communications. Other areas that would involve time in the United States are flight training and more extensive courses in the U.S. military's more advanced schools for officers to be involved in later in-country training – the so-called "training of trainers."

Any support that is given these governments should be given as openly as possible – wide media attention has made it difficult to undertake sustained covert activity. At the same time, any attempt to restrict U.S. or other media coverage, or the public attention focused on the area by U.S. Congressional representatives would be immediately counterproductive, and would represent a serious breach of the right of free speech. Moral support for the opponents of an authoritarian regime is to be expected from domestic U.S. groups, and should not be mistakenly labeled as subversive.

In addition to accepting with good grace the attention that

will be paid to its own activities in the region, the United States Government should make every effort necessary to document carefully the activities of Cuba or other interested countries, whether these activities involve diplomatic efforts or the actual provision of supplies, weapons, or advisors. The provision of such support in the form of weapons, either by the Soviet Union or its surrogates, needs to be as substantially documented as possible – preferably before a great effort is made at publicity.

The East-West aspects of insurgency in the region, while tempting to emphasize, need to be given a proper perspective alongside the consideration that rural peasant movements in opposition to an oligarchic regime are not necessarily a function of external subversion. There is a real danger in seeing such opposition as only a result of "enemy" actions, which view tends to support responses such as military aid, as opposed to aid aimed at eradication of some of the basic economic and social problems of the affected societies. At the same time, however, given the example of Argentina, it would be simplistic to assume that material prosperity would automatically prevent violence, subversion, or other civil or military disruptions.

The United States should foster, wherever possible, the creation of democratic values and institutions, such as the protection of basic human rights and free elections. There is, however, a fine line between an assisted evolution toward democratic structure and an arm-twisting imposition of democratic forms without due consideration of possible repercussions from groups within ruling civil or military elites. Pushing a country too vigorously to take on the forms of democratic process, without allowing time for the the necessary societal infrastructure to develop, has too frequently been disastrous.

Similar considerations arise when dealing with human rights. Human rights are genuine when they come from resources within a social system, not as a result of external pressure or direct imposition. No nation, including the United States, has a formula that would give guidance in all situations regarding the violation of human rights, but our government must do some-

thing in the face of extreme violations such as mass disappearances, mass killings, torture, and genocide. It is morally indefensible to support a regime in Central America or elsewhere that condones or is actively involved in such practices. Even with no definite procedure that can be followed in all cases, it is clear that the exposure of gross human rights violations can make a difference, as can the withholding of financial and material aid. Certainly, this does not imply that less public measures, in the form of direct diplomatic pressure, should not be attempted.

In a more direct response to the general problem of human rights, several participants pointed out that the United States could improve its own record by ratification of the International Convention on Civil and Political Rights and the American Convention on Human Rights. This would show a willingness on the part of the United States to submit to an international court, in the interest of eliminating any charges of special pleading. In line with this is the concern that the United States should avoid inconsistency and selective implementation of whatever human rights policy is decided upon, to avoid loss of credibility.

No clear consensus emerged regarding the efficacy of programs aimed at the redistribution of wealth and/or land in the countries of the region. While conceding that there were problems derived from skewed economic distribution and oligarchic control of land and other resources, some participants questioned the ability of any external agency or country, such as the United States, the United Nations, or the Organization of American States, to redress the inequities of hundreds of years. Conversely, other participants expressed real doubts that the region can survive with the current distribution patterns.

Real political costs will have to be paid for any economic decisions taken in the region, as they have been paid as a result of current agrarian reform programs in El Salvador. Some participants saw agrarian reform as a convenient catch-phrase that has, in practice, brought about significant harm. Mexico was cited as a case in which constitutionally mandated farms have institutionalized inefficiency, and in which the consequent shift

away from agricultural activity has diminished a possible source of rural employment. Population growth in some of the rural areas most likely to be the focus of land reform is at such a rate that growth in income is more than compensated for, resulting in a lower per capita income. Agrarian reform cannot be seen as a solution to that problem, but only as a way to mask the symptoms.

The broader question was raised: whether the United States should, as a matter of policy, be involved in the imposition of redistribution of wealth. If the creation of more wealth is sought as a goal, does that imply more for the few, with additional deposits in foreign banks and no real change at the level of the rural poor? If maintaining the status quo is valid, does this imply continuing and unqualified support for in-place oligarchic regimes? \*

The definitional problems involved in any such discussion make for even greater difficulty. If oligarchy is defined, as one participant put it, as "the stealing and plundering by governors, generals, presidents, and vice-presidents," then it is clearly unacceptable. What is frequently done when discussing Central America, however, is to label as oligarchs any persons who, through personal effort and ambition in business, have accumulated wealth within or outside their own country.

The same virtues of thrift and hard work which are lauded in our own country are sometimes vilified when found among Guatemalans and Salvadorans who become wealthy. The assumption is frequently made that most countries of the region do not allow any person with enough preparation and a modicum of capital to become wealthy through hard work. This is a mistake – and labelling such a person an oligarch is not constructive. The economic development of the region is not simply a matter of deciding who is to blame based on financial success.

There are, however, patterns of change which have not been beneficial to any but a few large landholders. The concentration of lands formerly used in growing corn and beans in the hands of coffee growers, and the subsequent displacement of small far-

mers, has made a country like El Salvador a net importer of food products formerly abundant. Where the coffee growers influence the military, and the military controls the government, there is not likely to be a chance of changing the system through such sophisticated solutions as subsidies.

**Recommendations on Democratization, Reform, Human Rights, Instability:**

1. The United States Government should continue to react strongly to violations of human rights – disappearances, killings, torture, genocide, and executions – whether the violators are guerrilla groups, governments, or government-sanctioned private groups.
2. Without applying mechanical formulas, the United States should condition aid and support of governments to respect for human rights.
3. The United States should evidence support of human rights by its own ratification of the International Convention on Civil and Political Rights and the American Convention on Human Rights.
4. The United States should help Central America and the Caribbean emerge from its present socioeconomic crisis by providing significant economic and technical assistance to the area.
5. The United States should upgrade the quality and magnitude of its military training and exchange programs, emphasizing
  - contact with midlevel officers,
  - management and logistics skills training,
  - an enhanced U.S. presence in the higher military schools of Latin America.
6. The United States should continue to support the efforts of the Contadora Group toward a peaceful, negotiated settlement in Central America. At the same time, pressure should be put on the Nicaraguan regime to moderate its policies, to abandon its support for insurgency in the area, and to allow free elections and

a pluralistic society.

7. The goal of U.S. sponsorship of land reform should be access to land for productivity and higher income for the rural poor, not simply the redistribution of land.

8. The United States should provide financial assistance for population control, to avoid dissipation of gains from agricultural reform, provided such assistance is requested by the host government.

9. The United States should encourage the Organization of American States to help carry out elections when requested, to assure that all parties may participate in the democratic process, and to ensure that the results of free elections are respected.

**Education as a Component of Financial Assistance**

Education programs have frequently been grafted onto existing or projected assistance packages. *The Miami Report* participants strongly felt that the United States must include a particularly strong educational component as an integral part of any program of assistance designed for Central America and the Caribbean. For such a program to be effective, it must be insulated, as much as possible, from the four-year, on-again, off-again vagaries of the U.S. electoral cycle.

If such a commitment is made, it would provide one of the few ways in which various levels of technology can be brought to bear on the problems of the countries of Central America or the Caribbean. First, there must be a recognition that the return on an investment in education is measured in decades. Basic programs, designed to be implemented for children during their earliest school years will not show any tangible result for many years, at least in terms of political stability or economic self-reliance. Second, while most U.S. educational undertakings have been at the higher educational levels, we feel that more attention should be paid to primary and secondary education, and to special programs for adult literacy and technical training.

Programs to enhance existing educational programs can take advantage of two important factors: existing technology and language homogeneity. The technology is currently available to provide satellite transmission of daily (or hourly) educational programs in basic subjects to every part of Central America and the Caribbean. Without denigrating the importance of individual teachers, this can help provide intensive programs in fields, such as science, mathematics, and reading, that can utilize either strong visual presentation or drill. This would specifically include adult literacy programs.

The provision of such instruction would be a natural element for the United States to undertake, especially as the language problems faced by many African and Asian nations, with hundreds of tribal languages and dialects, are not prevalent in

Central America or the Caribbean. The necessary speakers of Spanish, English, and French abound in the United States, and the production of educational programs designed for daily use in the classroom is a well-established industry which would benefit from additional outlets.

Higher education is the other major area in which the United States has an opportunity to help the countries of Central America and the Caribbean develop the needed infrastructure. This is an area in which both the Cubans and the Soviet Union have been doing quite well. By contrast, the United States is seen as allowing a much smaller number of students, many of whom are either wealthy children of the upper classes or relatives of local government officials, to take advantage of the educational opportunities in the United States. Furthermore, once here, these students are not always trained in skills specific to the needs of their countries; many choose to remain in the United States after their schooling is completed.

The United States has a gigantic educational establishment. Higher education is a service industry in the U.S. which is facing economic pressures in the face of declining numbers of potential students, as the age cohorts reaching college age become smaller. Any programs that would depend upon the active involvement of U.S. colleges and universities would bring immediate and long-term benefits to a significant sector within the U.S. economy.

It is necessary to emphasize that the provision of educational programs aimed at technical training for the youth of Central America and the Caribbean countries is something to be undertaken for its own merit, and not as a result of trying to best the Soviet Union or Cuba. This positive move is well within the capacity of the United States to deliver, and will have substantive benefits for the United States, as well as for the other nations involved.

Technical training can cause a real change in the level and quality of services reaching the populace in the individual coun-

tries of the Caribbean and Central America. One factor critical to the success of such a program, however, is usually overlooked, or considered embarrassing. Many of the students who come to the United States at the present time, studying in colleges, universities, and technical schools on F-1 visas, have no intention of returning to their home countries. A student being trained in biomedical engineering, for example, has a clear view of what differences exist in the way of professional opportunities and rewards in the United States, as compared to the more limited resources in his or her home country. It has been relatively easy for such students, particularly those in more technical fields, to manage a change of visa status, and eventually to become U.S. permanent residents. This is not the desired goal of any program of education designed to help developing nations. To a limited degree, this problem has been solved in programs sponsored by USAID and by some international organizations, through issuance of visas that cannot be changed to permanent residence status. It is critically important to ensure that any program of education in the United States that involves large numbers of students from Central American and Caribbean nations be designed with such visa provisions. Whether such a program could be successful would depend on the degree to which its graduates could be reintegrated, at varying levels, into their own societies.

Language problems have presented an additional barrier to the success of programs aimed at students from developing countries. While this would not be such a major concern for students from many of the Caribbean nations, certainly most of the students from Central American countries would need language training. Although it would be possible to provide instruction entirely in Spanish, the more desirable method is the provision of an extra year or more for training in English. This would allow for a much wider choice of schools and locations within the United States for training to take place, and would give an additional skill to students – one which would be useful in the further integration of the region into the world economy.

**Recommendations on Education as a Component of Financial Assistance:**

1. The United States should implement technical training projects as a major component of financial assistance, especially projects which could effectively and immediately use labor-intensive methodology, and gradually introduce mechanization.
2. Where possible, technical training and education projects should have as a goal skills and employment opportunities that can benefit and be used in rural areas, to reduce migration to the cities.
3. Technical education that requires training in the United States should be supported with language study, and should include liberal use of visa classifications that cannot be converted into permanent residence status, to ensure repatriation after training.
4. Current satellite technology should be used to supplement basic literacy and skills training in rural areas, to be coupled with financial assistance in the form of receivers for broadcast instruction.
5. The United States should adopt a long-range and consistent program of academic scholarships for various countries. Every effort, including language training, must be made to ensure that students from all social levels are included.
6. Local communities, service organizations, and universities should be actively encouraged to co-sponsor students from this region for study throughout the United States. Programs such as the Rotary Scholarship Program should be studied and emulated.
7. Binational centers and the language programs offered by the United States Government in the area should be used as a mechanism for encouraging students to attend U.S. institutions, through sponsorship of competitions like those held by the

British Council and the Alliance Francaise.

8. Cultural exchange programs should be strengthened and expanded.

## **Immigration**

The Caribbean and Central American countries have increasingly served as a source of immigrants in the Western Hemisphere. Combinations of so-called "push factors" and "pull factors" have converged to increase both the number and the urgency of intending immigrants. The major impact on the United States to date have been psychological, with large numbers of citizens, vaguely aware of the numbers involved, certain only that they want to reduce quotas of immigrants. This combination of elements will, if unaltered, lead to a series of serious confrontations at the national level. Already, active and vocal supporters of stronger and more exclusionary immigration regulations are vying for funds and for attention with individuals and agencies supporting the United States as the nation of first asylum for persons uprooted by political or economic disaster.

Authoritarian governments produce enough discontent to generate a certain irreducible minimum of potential immigrants. Economic downturns, regional and global, produce more. Population pressure adds its own impetus. The result is a melange of aspiring immigrants pushed from the individual countries of the region. Added to this group are the ambitious individuals and families who see the United States as providing an opportunity for enhanced living standards, and those who are eager to join relatives who have already successfully managed to immigrate to the United States in the past. The great difficulty at the policy level is sorting out the relative merits of group and individual claims, which may frequently be based on a combination of several of the above factors.

The current controversy over immigration policy depends on an understanding of two separate groups – political refugees and economic immigrants. While these two groups are not mutually exclusive, each one provides a different rationale for entry, parole, and eventual residence status.

The refugee has the clearest claim to consideration. In large part, the United States has been populated by members of ethnic

and cultural groups subject to persecution in their countries of origin. Ironically, many of these same groups find themselves in direct economic competition with immigrant populations arriving today, and the resultant friction has led to active hostility and even some violence. It is difficult to convince lower-income workers that their perceived loss of a share of the labor market represents a short-run dislocation by workers who will use less than their share of tax revenue.

In the days when the United States had an internal frontier, immigrants could easily be absorbed. Now, with increasing immigration seen by many as a threat to economic stability, pressure is being put on local and national legislative officials to provide a solution. Even where there is not an intense competition for employment, recent immigrants are increasingly being perceived as a new underclass, separated from the mainstream of society by language, culture, or both.

Active hostility to immigration has emerged in public referenda on bilingualism; it is not uncommon to see editorial comment on the labor force impact and the relative imbalance of social service use and contribution of tax revenues that can be expected, particularly in those areas which serve as pockets of new immigrants. Undocumented workers, particularly, are seen as taking jobs from U.S. citizens and residents, or, at least, as lowering wage and working standards for U.S. labor in general. As illegal aliens are employed in low-skill occupations, they create a class of disenfranchised, relatively unprotected workers. By allowing employers to avoid upgrading of work and wage standards and by encouraging investment in less expensive, labor-intensive technology, such workers generate further market demand for such labor. This phenomenon has been particularly evident in certain industries involving low-level assembly and manufacture, such as the garment industry.

Demographic change and decreased fertility have reduced the numbers of young potential workers in the indigenous U.S. population. Other factors, such as the increased participation of women in the labor force, and the possible increase in the

average age of retirement, will affect the ability of our society to continue to absorb immigrant labor. These possibly counterbalancing changes are rarely figured into any consideration of long-term trends, but must be accounted for in the creation of a coherent immigration policy.

The island nations of the Caribbean present a special policy problem. The ecology of these states — agricultural, economic, and social — is such that no program of economic development alone can solve their current population problem. These countries will have to export people in order to survive. Ten percent of the population of the Caribbean nations now lives in the United States, regardless of the position on the political spectrum of their home governments.

If U.S. national security is seen as depending, in part, upon political stability in the region, it must be realized that such stability is directly related to the region's ability to deal with the needs and demands of its population. To protect, achieve, or maintain any real stability, the surplus population has to be taken care of, which in reality means exported.

The small states of the region have, traditionally, been oriented to their metropolitan homelands, but neither Britain nor France have the resources to continue to absorb this traditional migration. The United States faces the option of absorbing a continuing percentage of this group, in an orderly way, or absorbing an uncontrollable amount of illegal immigration in spasms after each of the successive natural and social disasters that occur. By the establishment of an orderly process of migration, with special quotas for each of the Caribbean states, the United States would be acting in its own best interest.

**Recommendations for Immigration:**

1. The United States should base its immigration and refugee policies on the following principles:

- People have the right to emigrate from any country, including their own;

- Governments may restrict immigration when it is a question of public morality (exclusion of criminals) or national security;

- Governments may restrict the number of people who may immigrate in any one year when the common good of the country is likely to be adversely affected by its inability to absorb such immigration;

- The following categories should be excluded from such numerical ceilings or caps:

- Persons seeking refuge in a country of first asylum because of well-founded fear of persecution;

- Immediate family members seeking to be reunited with relatives who are U.S. citizens or who are already legally admitted;

- Regulations governing immigration should be free from all taint of bias on the basis of race, creed, culture, language, and national origin;

- Once lawfully admitted, the immigrant or refugee should be afforded every help and encouragement to acquire full citizenship.

2. The United States should assert by direct diplomatic means and in international organizations these same principles throughout the world.

3. The United States should grant all undocumented aliens

actually in the country, as of the date of enactment of the necessary legislation, permanent residence status, except for reasons of public morality or national security.

4. The United States should impose sanctions on those who employ undocumented immigrants, but only after enacting enforceable provisions which would prevent discrimination against U.S. citizens and lawfully admitted immigrants and refugees.

5. The United States should establish control over its borders with due respect for the human rights of persons intercepted, and with guaranteed due process for those with a *prima facie* case for political asylum, in full accord with the United Nations Convention and Protocol on the Treatment of Refugees.

6. The United States should establish a reasonable, regulated, and orderly migration process for the surplus populations of the nations in the Caribbean Basin, including the establishment of special quotas.

## Cuba and the Cuban-Soviet Threat

As Central America and the Caribbean nations are seen as having a special importance for the United States, so Cuba is seen as having a special significance within that region. For more than two decades, the implantation of a communist dictatorship in Cuba has been an active concern to the United States, and the subsequent actions of Fidel Castro, both internally and as a result of stated or implied goals of Cuban foreign policy, are of significant importance to the formulators of U.S. policy.

The questions arising from the presence and activities of Castro have never been resolved satisfactorily, although the United States has had to make the decision whether or not to tolerate or to co-exist with other societies in the Western Hemisphere that are communist, socialist, or merely unfriendly. Some participants felt that having additional communist or socialist societies within the Hemisphere was an inconvenience, but need not be more than that if superpower confrontation could be kept from becoming rancorous. Truly "unfriendly" states, of the far right as well as the far left, were seen to be rarely successful even in maintaining their own internal economic and political ventures, and dangerous only to the degree to which their internal conflicts spilled over into neighboring states of the region.

The United States, at the global level, has learned to live with states such as China, but most participants felt that there were substantive differences with respect to the emergence of socialist and communist states in the Western Hemisphere. The proximity of the Caribbean nations and the countries of Central America has made it even more difficult to accept possible changes of government that would allow or encourage more Cuban, Soviet, or Eastern European activity in the region, including economic activity, but especially activity derived from an enhanced military presence. Any U.S. actions towards Cuba or other socialist or communist states should be undertaken only after due consideration of the possible political and military implications for the Hemisphere and the rest of the world.

One question frequent in discussions of U.S. actions and reactions in the Central American and Caribbean areas is the impact, negative or positive, of full, multi-level diplomatic relations with Cuba. This is not a problem of recognition, but would be a political act undertaken to enhance the nature and frequency of contacts with the Cuban government, in order to further U.S. interests.

Participants in *The Miami Report* sharply disagreed about the efficacy of such an enhancement of relations. Many stated that the implications of such a move would do little in any concrete way to further the goals of the United States, but much to further the objectives of the Cuban government. No clear assessment can be made, conclusively, of the gains and losses of twenty-two years of strained, marginal relations between the two countries. In some sense, the refusal of the United States to accept Cuba as an active member of the diplomatic community in the region has served to enhance Castro's carefully fostered image as a romantic David facing up to an evil Goliath.

To counter those who consider Castro the beneficiary of United States policy, some participants asserted that the policies of the U.S. had served their purpose as punitive measures, and had helped other governments, such as Venezuela, resist Cuban-inspired, Cuban-supported revolutionary movements in the 1960s. In some other cases, such as Bolivia, U.S. pressure helped turn world public opinion against Cuban involvement.

Full diplomatic relations should be seen as a means, and not as an end in itself. Establishment of the U.S. interest section in Havana helped to reestablish formal lines of communication; most participants felt that there would be no net gain at this point if full relations were restored; several pointed out that communications with and concessions to the Cuban government had gone on in spite of the nominal status of relations between the two countries.

Even without the extension of full relations, the participants of *The Miami Report* pointed out, there was a need to recognize

the disproportionate influence of Cuba in the region, and in those areas, such as Africa, where there is an active Cuban presence. In Latin America, Cuba has a real and constant importance. In addition, several participants see Cuba as a very important tool, often used against the interests of the United States, in a bipolar context. Soviet expansionism, and the concurrent reemergence of bipolar rhetoric and considerations in the foreign policy of the United States has enhanced the importance of Cuba, as it has enhanced the importance of Latin America and the Caribbean.

There is a real, if unfortunate, tendency to think of Latin America as important only in this bipolar context. One of the difficulties that *The Miami Report* participants foresee is keeping the awareness of the importance of the region separate from the bipolar competition. Historically, the United States has failed to pay continued attention to events in the countries of Latin America, except when bipolar considerations were evident, or when major violence and instability developed in the area. If there is a lessening of this tension, or of Soviet expansionism and interest, there is a real danger that Latin America and Cuba would sink into political obscurity again. Participants, especially those from the banking and business communities, spoke repeatedly of the need for U.S. recognition of the intrinsic importance of the region, and of the need to avoid seeing states as important only in terms of superpower confrontation.

Also of concern in determining the proper policy toward Cuba is the degree to which that country can speak for itself. There is no clearcut way to establish the points in Cuba's revolutionary history at which its actions were undertaken to enhance its own vision of what was proper, or to establish which, if any, actions were undertaken at the insistence or at the suggestion of the Soviet Union. As Cuban actions in Angola or elsewhere outside the Western Hemisphere indicate Soviet support and involvement, at the very least, so have there been actions within this hemisphere that have been undertaken with no more than grudging acceptance on the part of the Soviets. The *foco* theory, dear to Che Guevara and other revolutionary theorists of Latin

America, is not part of the orthodox Marxist-Leninist canon. Cuban activities, and those of Cuban-inspired revolutionaries, have been disparaged repeatedly by the Moscow-line Communist parties of Latin America interested in participating in the electoral path.

At the same time, however, it must be assumed that the flow of revenue and weapons that is controlled by the Soviet Union provides implicit, if not explicit, elements of control; some participants felt that the participation of Cuban advisors in activities aimed at destabilization of certain regimes in Latin America was the return that the Soviets were getting for their investments. Other observers insisted that such a *quid pro quo* was not really necessary, and that Cuban activity was in its own way a form of *noblesse oblige*, and that there were no real alternatives for the Cuban leadership other than support, either vocal, or in the form of materiel or personnel, for almost any revolutionary activity considered to further "the cause," as that cause was articulated either in Cuba or in the Soviet Union.

Without stating that Cuban policy is, in fact, derived from Soviet policy or is an offshoot of it, there is unanimity in most international forums with few substantive instances of divergence. Even the lack of support for such heterodox groups as Sendero Luminoso can be seen as a form of solidarity.

There was concern about the nature and degree of economic aid that the United States would be expected to provide Cuba as a condition of rapprochement. A U.S. effort at significant, multilevel negotiations aimed at normalizing relations with Cuba would include the possibility of material support, to the degree that such normalization would eliminate Soviet support. Several participants felt that the Soviet Union and Cuba both wanted the best of both worlds. For the Soviet Union, it would mean relief from what has become a constant drain on strained resources. For Cuba, most participants felt that there would be a cynical exploitation of financial aid from the United States and Western Europe without the relinquishment of revolutionary goals. If technology were to be a large part of the

transfer of goods and services that such a normalization would imply, Cuba would possibly be more likely to make the effort to maintain relations with the United States at a higher level, to avoid problems of supply. This would not be as necessary in the case of loans or other financial aid.

The implications of such a change in the nature and levels of Cuban-U.S. relations are significant. Other countries of Latin America would certainly draw their own conclusions about such a move on the part of the two countries, but it is difficult to see that such an effect would be beneficial. A significant change in the relationship of the United States and Cuba would be seen by many as implying that Cuba had been found not "beyond redemption," and deserving of trust. Several participants pointed out that nations really operate on the basis of shared or mutual advantage, rather than trust, and that several of the nations considered allies of the United States do not have an enviable record of trustworthiness.

With the option of negotiation clearly available, and lobbied for by Cuban representatives, the United States must approach the consideration of advantage. Several participants felt that only a concrete, specified list of demands regarding changes in Cuba's domestic and international behavior could justify taking up the option to negotiate with the Cubans. The opposite opinion was also expressed: any degree of relationship between states, with or without specified goals, results in some influence. China was mentioned as such a case, with real advantages derived from direct communication without the use of third parties.

Even if such negotiations fail, some participants felt, the United States stands to gain from using that approach. Finally, several participants mentioned that the United States already has a definite stated policy of dealing directly with the Cubans if and only if there is a Cuban commitment not to export revolution (and to reduce the Soviet military presence), and that this policy should still be considered valid.

There is a definite question whether Castro is willing to

negotiate, in the sense of being willing to give up something to get something. Would or could he give up his long-held aim to lead the Third World? Does such an aim imply Cuban support for peoples' revolutionary movements worldwide? Additionally, there is the question of the Soviet Union's willingness to give up force deployments in Cuba, the submarine base in Cienfuegos, or the possibility of gaining a Pacific Central American base as the direct or indirect result of Cuban activity in that region. If negotiations are to take place, the United States must be willing to formulate and put forward concrete objectives, representing a carefully determined, cohesive, long-term plan for changing the nature of United States-Cuban relations.

Any change in the nature of relations between the United States and Cuba may have a potential for affecting the relations between the United States and other nations in the Hemisphere, at the political and at the military level. The United States must make sure that its actions do not come as a surprise to its allies in Latin America and the Caribbean.

The embargo of U.S. goods is an additional topic derived from the state of U.S.-Cuban relations. There is a wide range of opinion regarding the effectiveness of the embargo. It is clear, for example, that the Cuban government gets U.S. goods, of varying sensitivity, in Panama and Canada, without too much difficulty. It is also clear that the general scarcity of consumer and technical goods is blamed by the Cuban government on the United States, while the Cuban government avoids the necessity of providing higher levels of such goods for the Cuban people. Some participants felt that the United States does the Cuban government a great favor by providing an excuse for containing the pent-up demand for such goods. Conversely, Cuba has little that would be useful to sell to the United States. This implies that the worse thing the United States could do, from the Cuban standpoint, is to lift the blockade.

Marxist theoreticians state that trade between developed and developing countries further increases the inequalities, polarization, and inherent contradictions within the society.

Applied to relations between the United States and Cuba, this implies that the reinstitution of trade would not benefit the Cuban government, and would actually serve to weaken the regime.

There are certain industrial and technical items, however, that the Cubans have been unable to obtain, and the lack of these has shown the blockade to be very effective in the more technical levels of the industrial sector, with a definite impact in terms of inefficiency. The result of this has been an industrial sector that has been limping for twenty-five years, and which would benefit greatly from a change in the embargo. There is reason to believe that increasing trade with the Cubans would allow Cuba to serve as a channel for the purchase of goods and technology by the Soviet Union, as well.

In sum, the embargo, considered as a political action designed to bring down the regime, has not been effective. Perhaps trade, which would not seem to be as valuable to the Cubans as they seem to feel, could have its real value as a bargaining chip in negotiations.

**Recommendations on Cuba and the Cuban-Soviet Threat:**

1. The United States should issue a policy to deal with Soviet forces in Cuba and Soviet-Cuban involvement in Latin America. This policy should include the following:

- The United States will not tolerate any military interference by the Soviet Union or Cuba in the internal affairs of any Latin American nation;
- The United States opposes the transfer or stationing of Cuban, Soviet, or Warsaw Pact troops or offensive weapons in any part of the Western Hemisphere;
- The United States opposes the use by the Soviet Union of any third-country military personnel in any conflict in the Western Hemisphere;
- The United States rejects the application of the Brezhnev Doctrine to Cuba, and opposes the use of Soviet troops in any internal conflict on the island.
- The United States Government should state clearly that it does not ratify the tenure of the Castro regime in Cuba, and that it would not be constrained against working with democratic forces seeking to change Cuba's government.

2. The United States should state clearly to Moscow and Havana that the severe economic crisis in Latin America, regional conflicts, or civil wars cannot be exploited to the detriment of U.S. interests.

3. Since U.S.-Soviet global competition involves, to a large degree, national credibility and prestige, U.S. policies must

- avoid actions which magnify the significance of Soviet successes; and

• avoid the establishment of positions which can be violated with impunity by the Soviet Union.

4. The United States should continue to apply pressures on Cuba to remove its troops from Angola, Ethiopia, and other parts of the world.

5. Covert actions should be used only when vital to the security of the area, when significant chances of success exist, and when diplomatic, propaganda, and other efforts have no prospect of success.

6. The United States should carefully consider what ends would be served by any enhancement of current levels of diplomatic relations with Cuba. Any United States negotiation should continue to have as its goal Cuba's commitment not to export revolution, the reduction or removal of Soviet military presence, and the restoration of democracy.

7. Additional specific accords, on the order of the hijacking agreement, should be pursued when there is a clear mutual advantage.

8. The embargo against Cuba has been most effective in allowing the Cuban government to justify shortages of consumer goods, and only secondarily in its impact on the industrial sector. Its benefits should be weighed against its use as a propaganda piece by the Cubans within the Hemisphere, and it should be considered as a possible bargaining chip only in negotiations for concessions on fundamental issues.

## The External Financial Crisis of Latin America: Origins and Proposed U.S. Policy Response

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### **The Issue**

Growing net increases in external financial flows are necessary to the development process of Latin America. Developing countries are capital deficient due to the lack of depth and breadth of money and capital markets. A growing infusion of net external financial resources is therefore a necessary condition for economic development. During the 1976-1979 period, Latin America\* had a net cumulative transfer of financial resources of about \$25.5 billion (as measured by the surplus in the overall balance of payments). This development contributed to achieving a strong 5.4% average yearly growth rate for the region, significantly above the population growth rate.

During 1980-1982, there was a dramatic swing in both the net transfer of financial resources to the region, and in regional economic growth performance. During 1980-1982 there was a net *outflow* of financial resources on a cumulative basis of \$36.6 billion. Regional economic growth during this period averaged only 1% per annum, significantly below the population growth rate — at the most of the growth occurred in 1980. Latin America has been in recession since the end of that year.

\*IMF definition which includes all countries that are Fund members in Latin America and the Caribbean. It excludes Venezuela as a major OPEC member.

Real per capita income is lower today in Latin America than it was at the end of 1979. Furthermore, unable to obtain adequate levels of net financial resources, the region has not been able to meet its debt servicing commitments since mid-1982 – exacerbating further its access to external capital as foreign commercial banks, which provided in the 1976-1981 period slightly over 60% of net new financing, have sharply cut-back new credit activity in the region to obvious creditworthiness considerations.

### The Causes

The origins of the financial crisis, which at its source reflects the sharp and sudden swing in net financial transfers to the region, are varied. Furthermore, the severity and extent of the crisis have created policy responses from the suppliers of capital to the region that unintentionally have aggravated the situation. We are presently dealing with an unstable self-feeding situation that requires energy policy responses from all the affected parties to stabilize it.

Two key factors led to the sharp deterioration in the transfer of net financial resources to the region and, therefore, to its present growth and debt servicing problems:

1. The dramatic and *sudden* change in the conduct of monetary policy in the United States significantly contributed to a period of economic stagnation in the world economy, with unstable and historically very high inflation-adjusted interest rates, and a very strong U.S. dollar. In late 1979, the United States moved from an expansionist Fed policy that targeted the growth of money. In essence, the world economy *suddenly* went from a period of double-digit inflation and very low real (inflation-adjusted) interest rates, to a period of disinflation and very high and volatile interest rates. This sudden and major change created a completely different international economic environment for Latin America *in a very short period of time*.

During 1976-1979, industrial countries, the major market for Latin American exports, averaged a strong 4.4% growth rate per annum. During 1980-1982, industrial-country growth remained stagnant, adversely affecting both volume and prices of Latin American exports. The value of exports of Latin America increased as a 14% annual rate during 1976-1979, but dropped sharply to an annual growth rate of 4% between 1980-1982. Furthermore, the latter figure masks the extent of the deterioration since the average includes a very strong export value growth performance by some of the Latin American oil exporters in 1980. During 1981-1982, export values for the region dropped at an annual rate of -4.6%

Concurrently, Latin America was confronted by a doubling of its interest payments in three short years due primarily to a very tight U.S. monetary policy that drove international interest rates to record highs. The London Inter-bank Offered Rate (LIBOR), to which approximately 60% of Latin American debt is tied on a floating six-months basis, went up from an average of 8% during 1976-1979 period, to 15% during 1980-1982 (for six-months deposits). This development mainly caused the average net interest payments of the region to increase from an estimated \$12 billion per year in 1976-1979 to \$33 billion in 1980-1982 – an astounding 175% increase.

2. The policy response from both the major countries in the region and the commercial banks compounded the difficult situation created by the sudden shift in U.S. economic policies. The Latin American countries did not adjust quickly enough to the strict discipline required by a sharply adverse international economic environment. Among policy errors were the maintenance of an overvalued exchange rate (Mexico, Argentina, Chile, Ecuador, Venezuela, Jamaica, Colombia) with inappropriate monetary and fiscal policies (Brazil, Mexico, Argentina, Ecuador, Colombia). In a disinflationary and very uncertain world economic environment, the penalties for such policies come quickly through a deterioration in the trade account and a withdrawal of foreign investor confidence. The yearly trade deficit for Latin America averaged \$1.5 billion during 1976-1979, but de-

teriorated sharply to an average trade deficit of \$9.5 billion in 1980-1981.

The foreign commercial banks were also slow to respond to the sudden and sharp deterioration in the international economic environment, reacting to the uncertainty of this environment initially by shortening the maturity of the credits to Latin America, and finally by a sharp pull-back of new lending to the region. The ratio of short-term debt to total outstanding debt for the region averaged 15% during 1976-1979. This ratio jumped to 21% between 1980-1982. Furthermore, foreign commercial bank lending to the region increased at a 23% yearly rate between 1979-1981. In 1982, the rate dropped to only 9%, and most of the increase came in the first half of 1982. In fact, since mid-1982, *voluntary* new commercial bank financing to the region has virtually stopped.

### **Suggested U.S. Policy Response**

As the largest economy in the world, and with a currency that is the accepted medium of international payments, a given mix of U.S. policies has a multiplier impact on other countries. The transmission of U.S. policy changes to the rest of the world is almost immediate through trade, capital, and currency linkages, and very importantly through the expectations of major players in the world arena, such as multinational banks. It stands to reason, therefore, that the United States should incorporate international economic targets in its conduct of domestic economic policies, and should avoid especially sudden and sharp swings in policies that destabilize the patterns of world trade and investment.

Furthermore, in its conduct of domestic economic policies the United States should recognize its special relationship with Latin America, with whom it shares this Hemisphere. It is also a matter of self-interest. Latin America is the recipient of 20% of U.S. exports, and a major supplier of strategic raw materials such as crude oil. The financial ties are also vast. At the end of 1982, for

example, U.S. banks had \$82.9 billion in credit outstandings to the region, and to this figure must be added \$13 billion in outstandings at the offshore banking centers of the Bahamas and Panama.

In summary, the United States has become an open economy and should conduct its economic policies with this fact in mind. Specifically, it is suggested that

1. The Federal Reserve establish monitoring ranges for the value of the U.S. dollar in its conduct of monetary policy; and that it explicitly divulge these monitoring ranges to the financial markets as it does with domestic targets and monitored variables. From an open economy perspective, for example, U.S. monetary policy was *extremely* tight during 1981 and the first half of 1982. Between 1980 and the first half of 1982, the nominal effective exchange rate of the U.S. dollar jumped 19%, and industrial raw material prices dropped 21%. This sharp and sudden change dramatically increased the real burden of servicing dollar-denominated debt throughout the world, and plunged Latin America into deep recession. Since mid-1982, monetary policy from a open economy perspective has become somewhat more accommodative, but still relatively tight as the nominal effective exchange rate of the U.S. dollar has appreciated an additional 6% from mid-1982 to June 1983 – and the United States was forced to intervene in the foreign exchange markets during August to stabilize a surging dollar.

2. The United States should harmonize monetary and fiscal policies to avoid sharp clashes between the two that drive up real interest rates in a worldwide context, and destabilize the patterns of world trade and investment. There is, at present, a severe mismatch between an essentially disinflationary U.S. monetary policy, and an essentially inflationary U.S. fiscal policy. The results are high and unstable real interest rates both here and abroad that are undermining the growth of private investment (which is key to accomplishing non-inflationary long-term growth), and creating volatile currency markets that are a threat to the incipient world economic recovery. Furthermore, the present mismatch is destabilizing expectations as to the future health of the interna-

tional economy, especially jeopardizing the economic recovery of Latin America. For example, U.S. banks and corporations are incorporating in their lending and investment decisions for Latin America the increasingly-uncertain world economic environment in 1984 and 1985. The results are lower levels of credit and investment flows to the region, with adverse implications for the net transfer of financial resources and regional economic growth.

In summary, the United States should have as a key policy goal the promotion of a favorable world economic environment conducive to private sector investment and world trade growth. Harmonizing fiscal and monetary policies, and incorporating international economic factors in the conduct of Fed policy, would significantly contribute to achieving such a goal.

c. Trade policy in the United States should become more liberal towards countries in Latin America that do not discriminate against U.S. investors, and that conduct appropriate development policies. Countries that heavily subsidize their exports due to inappropriate fiscal and exchange rate management should not be given the same access to the vast U.S. market as countries that open their economies to U.S. exports and investment, or that exercise prudent management. We do not need a global Marshall Plan for Latin America, but a selective opening of our markets and technological transfers to countries that internally foster economic efficiency. Such an approach would significantly assist the transfer of net financial resources to Latin America by improving the creditworthiness of the countries of the region, and thereby allowing these countries continued access to private financial markets. These countries would also benefit from the productivity gains derived from increased foreign private direct investment, enhanced technological transfers, and trade liberalization.

## **Conclusion**

A private-sector-oriented solution to the present financial crisis of Latin America is possible, if United States policies foster a

growing world economy through appropriate domestic economic policies. The United States should avoid sharp and conflicting policy changes that disrupt established patterns of world trade and investment. An appropriate domestic policy mix in the financial, fiscal, and trade area would provide the right environment and incentives for improving the creditworthiness of Latin American countries, allowing these countries access to international financial markets on a continuing basis.

## **Alternative Latin American Longterm Economic Growth Scenarios**

### **Siegfried Marks**

Traditionally Latin America required internal and external savings/investment funds equivalent to 20% of GDP to achieve satisfactory 6% real economic growth per year. These funds were divided roughly as follows:

- 15% from internal savings devoted to investment
- 4% loans and investment from abroad
- 1% devoted to debt service
- 20% of GDP

The current situation is quite different:

Latin American/Caribbean Total GDP	\$770 Billion
Total External Debt	\$350 Billion
Debt as % of GDP	45%

$$\begin{aligned} \text{Interest} &= 5.8\% \text{ of GDP} \\ &= 50\% \text{ of Export Earnings} \end{aligned}$$

Latin America will, therefore, have to devote nearly 6% of GDP to pay annual interest on the external debt, unless interest rates are reduced or some of the interest payments are financed with new loans.

Imports must be

- equal to interest payments
- equal to the trade surplus
- half of export earnings

in order for the trade surplus to cover interest payments.

There are several alternative future scenarios possible:

**Alternative A:**

Internal savings remain at 16% and interest payments at the present 6% of GDP, while net capital flows from abroad are cut in half to 2% or \$15 billion per year. Under this scenario, Latin America's investment will drop from the traditional 19% of GDP (to achieve a 6% rate of economic growth) to only 12% of GDP, which would be associated with negative per capita or perhaps negative total real economic growth.

**Alternative B:**

Latin America manages to improve productivity, and internal savings rise from 16% to 18% of GDP. Then, investment will drop from the traditional 19% to 14% of GDP, because 6% is devoted to external debt service. This lower investment rate will result in economic growth on the order of 3% per year, resulting in long-term stagnation or per capita incomes. This low growth would probably be inadequate to avoid future social/political unrest.

**Alternative C:**

Our debt policy proposals are implemented, resulting in internal savings and investments rising from 16% to about 19% of GDP under IMF prodding, lowering the debt service burden from 6% to 4.5% of GDP. An IMF guarantee would cause a virtual elimination of front end debt re-scheduling fees and political risk premiums (producing a savings of at least \$10 billion per year in interest payments for Latin America). Economic recovery and IMF guarantees would cause a rise in net capital inflow from abroad from \$15 billion to about \$23 billion per year.

Below is a comparison of these scenarios with the situation

prevailing prior to the debt crisis:

(As % of GDP)	Traditional	A	B	C
Internal Savings Investments	15	10	12	14.5
External Financing	4	2	2	3
Debt Service	1	6	6	4.5
Total Funding	20	18	20	22
Resulting Economic Growth (%/Yr.)	6	0*	3	5

\*This is nominally correct – actual current rate may fall to –5%.

## **U.S. Immigration and Refugee Policy – Issues and Considerations**

**Monsignor Bryan O. Walsh**

There was a time when strangers, on the whole, were welcome in the United States. Today, the influx of immigrants and refugees is viewed as a crisis demanding immediate attention. This crisis has emerged at a time of economic recession; although there is a relationship there, other factors influence the public concern. The problem is exacerbated by the breakdown in traditional political coalitions which occurs when the issue is raised in the U.S. Congress. The unusual pro and con coalitions on the Simpson-Mazzoli Bill demonstrate this.

This paper will suggest some basic considerations and principles for any examination of the problem. Hopefully, it will contribute to a more objective analysis of the present state of U.S. immigration and refugee policy. Unfortunately, the debate very often tends to be a clash of special interests and subjective reactions, rather than an open objective examination of the issues and what is best for the country.

Throughout the nation's history, U.S. policy and practice regarding immigrants and refugees have been characterized by a certain ambivalence between liberalization and restrictiveness. Policy decisions have been influenced by the ideal of an open society, the rule of law, and the persistence of a form of xenophobia known as nativism. Since 1965, the nation has moved towards a policy of generous, but regulated, levels of admission, free of discrimination on the basis of race, color, or national origin, and, in law at least, political asylum is no longer supposed to be subject to geopolitical limitations.

Nevertheless, during this same period, new trends in migration patterns have developed, and the United States has been struggling to formulate a proper policy response. The country has been faced with an unprecedented increase in un-

documented immigration, and has faced, for the first time in this century, the challenge of dealing with mass movements of peoples entering the United States as a country of first asylum under international law.

The political challenge is to reconcile the responsibility of controlling the national boundaries with the American tradition of hospitality towards newcomers – especially those fleeing persecution. This challenge is complicated by the desire of certain industries for a cheap subservient labor force.

At present, the five major issues in policy reform are

- undocumented immigration
- population size and composition
- work force needs
- U.S. foreign policy
- refugees.

The various issues yield a series of competing questions, which must be addressed in order to establish a coherent policy which is compatible with national values and goals:

- How can the borders be controlled?
- Should employer sanctions be used?
- Should there be a worker identification system?
- Should the undocumented already in the United States have their status legalized?
- Does the country have a population problem?
- What are the work force needs?

- How much immigration is needed?
- How should foreign workers be admitted? As permanent residents? As guest workers?
- Is there a relationship between U.S. foreign policy and the creation of refugees? If so, what is the country's responsibility towards these refugees?

Although separation of these issues is necessary for the purpose of analysis, they overlap and are interrelated. While refugee motivation for coming here is different, refugees can be part of the undocumented migration, and their presence therefore affects both the population size and work force needs.

The presence of three or more million undocumented immigrants is a serious national problem. They form a substantial underclass, deprived of social rights, subjected to exploitation and discrimination. Their children, U.S. citizens by birth, grow up as second-class citizens. The country cannot risk the creation of a permanent underclass, which would result from continued undocumented immigration or even a guest worker program. Legalization involves a compromise between two values of American society – the ideal of an open society and the rule of law. The ideal of an open society is that “newcomers” ought to be admitted to citizenship without prolonged delay and without having been sifted through a discriminating network of racial, ethnic, or religious qualifications. The rule of law requires that law-breakers not be rewarded for breaking the law.

The second major issue that U.S. immigration and refugee policy has to address is how many and what kind of people should be admitted for permanent residence each year. The issues here are complex, and they are deeply rooted in the American social consciousness. Involved is not only a question of numbers, but also a xenophobia over the transformation of the United States from a white to a non-white society; from a predominantly Anglo-Saxon to a multi-cultural society; and from a Protestant to a Roman Catholic religious majority.

Another aspect of this issue is whether this country needs or wants more people. It is agreed that an influx of a million immigrants was acceptable in 1912, when the total population was less than half of what it is today and land was available for homesteads in the West. But one million in 1983 is too much. But is this the right comparison? Might it not be more correct to compare population to gross national product, rather than to land? If so, a million immigrants today is not comparable to a million in 1912. The Select Commission appointed by President Carter came to the conclusion that the United States could absorb more immigrants who came for purely economic reasons. As for the question as to whether the United States needs more workers, the Select Commission came to the conclusion that if undocumented migration is brought under better control, and more workers are still needed in the United States, it would be better to admit them as undocumented immigrants with full legal rights than as guest workers with inferior status. However, this is not likely to please those interests who are benefiting from the illegal status of these workers today, and who sincerely want a similarly-disciplined, cheap labor force under a legal guise.

Another issue stems from U.S. foreign policy. Mexico is said to be the source of over half of the undocumented in the United States. It is argued that an abrupt cutoff of undocumented immigration from Mexico will likely produce frictions with Mexico, while creating political instability there or elsewhere.

This concern is extended to the Caribbean Basin. Since it is virtually impossible to provide sufficient jobs within these nations, their surplus population must migrate. Denying them entry to the United States will increase the political instability in the area, thus threatening U.S. security. Therefore, the dilemma is that the United States may be forced to accept immigrants from the Caribbean in order to protect its own security.

Finally, there is the issue of the refugee, particularly the right not to be repatriated involuntarily when one has a well-founded fear of persecution on the basis of political or religious beliefs, social class, or ideology. This concept was incorporated into

international law by the U.N. Convention and Protocol on the Treatment of Refugees, in reaction to the forceful repatriation by the Western Allies of hundreds of thousands of anti-communists at the end of World War II. For almost twenty years after ratification by the U.S. Senate, these treaties were not an issue in the United States. However, with the growing instability in the Caribbean and Central America during the past two decades, the United States has become the country of first asylum for hundreds of thousands of Cubans, Haitians, Nicaraguans, and Salvadorans.

In 1982, there were 89,581 applications for political asylum in the United States from those areas. A major issue here is the way the government determines that the application for asylum is bona fide. Current INS practice leaves much to be desired. In the case of the Nicaraguans, even though the U.S. Government describes the country as a Cuban satellite, over 50% of applications have been rejected. At least one person has been detained since his forceful repatriation. A young Cuban stowaway, deported after a summary hearing in violation of departmental regulations, is now reported to be in prison. Of the more than 89,000 applications in 1982, only 4,045 were granted. A related issue involves the efforts of the U.S. government to discourage people from reaching the United States to seek asylum. Serious questions can be raised regarding the rights of people on U.S. ships to the protection of the Constitution.

The purpose of this paper was to outline a framework for analyzing U.S. immigration and refugee policy. Each issue raised involves serious ethical and legal issues. U.S. District and Appeals Courts have found serious defects in the U.S. government's handling of these questions. Such findings make it all the more urgent to seek solutions which are in accordance with national values and with rights guaranteed by the U.S. Constitution. To do less is to jeopardize the rights of all Americans.

## Hunger in Latin America: Implications For U.S. Foreign Policy

S.S.H. Lee

Latin America was long considered to be in the best position of the Third World areas in its hopes of attaining food security by the end of this century. If recent trends continue, however, there is little possibility of the achievement of sound nutrition for all, or even a reliable, resilient, self-contained agricultural system. At present, 41 million people in Latin America, 13% of the population, are chronically undernourished. Infant mortality rates show twelve countries in Central and South America to have severe hunger problems.

Overpopulation has been called the root of developmental problems, but responsible observers see it as a symptom, rather than a cause. In every industrialized population, there has been a demographic transition, a decrease in the death rate followed by a decrease in the birth rate. When basic needs of a population are met, and especially when nutrition is adequate, population growth rates begin to decrease. Latin American population rates have slowed somewhat, but governments have to manage the problems of a population that has tripled since 1940, and is expected to double again by 2020.

Latin America must put great energy into guaranteeing accessible food supply for everyone. The prognosis is definitely mixed. While the growth of food production is outpacing population for the moment, the pace is requiring ever greater inputs and incentives. In the 1930s Latin America exported twice as much grain as North America. Now grain reserves are mostly gone, leaving a large portion of the population much more vulnerable to crop shortfalls or price increases. The World Bank perceives a slowing of food production increase in Latin America to 2.9%, with demand increase still rising at 3.6%. If Argentina and Brazil, the major food producers, and the Latin American OPEC countries are excluded, we can see a truer picture of the food situation:

in the remaining countries there was a grain deficit in 1974-75 of 2.3 million metric tons. This is expected to increase to 5.5 million metric tons by 1985-86.

Agriculture cannot flourish without adequate investment, incentives, technology and workable policies. In most developing countries, agriculture's share in GDP and employment has decreased, as LDC's emulate MDC's in industrializing agriculture. The farmer becomes further removed from the consumer, transportation and marketing become more important, and prices increase, starting a cycle that leaves out the lowest income group. Less people working in farming puts more people onto the job market, creating a larger, overcrowded urban population lacking adequate job opportunities. The concentration of ownership, with landless peasants working tracts with no stock in their labor and no bargaining power, has too often led to controversial, sporadic, and violent programs of land reform, put in place without the infrastructural support necessary to make such reforms workable and productive.

A second problem is the disproportionate emphasis on livestock over land cultivation, with the best lands taken for pasture. This situation, an inheritance from the Spanish, forces peasants to cultivate hillsides, while cattle graze the valleys. It has led to overgrazing, overstocking, and depletion of land, as beef has become a more important export. In 1979, the United States imported 133,247 metric tons of Latin American beef. This accounted for only 2% of total U.S. beef consumption, but had disastrous effects on Central American and tropical rain forests, and on local consumers, whose per capita beef consumption declined sharply.

In the Amazon Basin, rain forest areas cleared for cattle ranching have failed after a few years, as forest cover was removed and the poor soil exposed. In Costa Rica, the percentage of pasture in the country's farm areas rose from 39% to 82%. Costa Rica now imports food, including its main staple of black beans, while the drop in U.S. meat consumption has left the Costa Rican economy fragile and vulnerable. The short-run boost to the

economy of export increase has in both cases been overbalanced by the deleterious long-term effects.

Production of coffee, soybeans, bananas, sugar, cotton, and beef has produced a reliance on the sale of raw materials and commodities. The markets for these products expand more slowly than markets for manufactured products, which can produce a decline in a country's purchasing power. Concentration on a few crops leads to vulnerability to price vacillation on international markets, as well as to reduced amounts of food for local consumption. Food needs that are unmet locally force importation, which has a negative balance of trade impact.

The profits made by agribusinesses, national and multinational, are a strong impetus for the maintenance of the status quo, which depends on low-income groups for the cheap labor needed to be competitive on world markets. A dependence on exports eventually brings more imports of the machinery and equipment needed to keep increasing production. While increasingly industrialized, competitive agriculture brings money into Latin America, high investments in externally purchased technology are needed to remain competitive. The labor force receives a minimal benefit from such investment, which may even serve to increase unemployment.

This issue forms part of the debate over which structure of agriculture is best for Latin American: traditional, labor-intensive methods or modern, agro-industrial methods. While the latter produces faster results in terms of profits and high yields, it has more unsettling effects on the culture. Fertilizer and fuel, needed in larger and larger amounts, is not as available as in the past; the pesticides and herbicides needed can poison the land; the genetic uniformity of the fast-growing hybrid crops causes low resistance to blights and diseases, which can devastate an entire harvest. In addition, small farmers working their own land are usually more productive per acre than the larger, mechanized farms, when the small farmers have access to credit and incentives.

## **Conclusions and Recommendations**

1. Latin America must increase and diversify food production, become self-sufficient in food and maintain food security, or face extremely grave problems by the end of this century. Latin American governments must make food security a priority issue, not only for humanitarian reasons, but for political considerations as well.
2. The United States should aim its bilateral aid programs toward development, rather than toward security assistance. In the past three years, U.S. security aid has been increased by 73%, while development aid has increased by only 10%. The two used to be almost equal. There is greater security in meeting the basic needs of the people of Latin America than in providing military support.
3. Developmental assistance should be aimed toward increasing food production, especially among the small farmers, by the creation of incentives and the extension of access to agricultural credit; and by emphasis on traditional, labor-intensive agricultural methods, rather than highly mechanized, energy-intensive methods.
4. The United States should emphasize further research on technology for the best utilization of tropical lands and efficient use of fertilizers and irrigation, as well as assisting in the development of transportation infrastructures that support farmers in access to markets.
5. The United States should assist in the creation of food reserves, so that food prices do not go too high for certain segments of the population during crop shortfalls.
6. The United States should urge Latin American nations to slow their purchase of military equipment, which increases their debt burden, and to concentrate on systematic internal improvement of the agricultural sector. The greater the shortage of foreign exchange, the greater the tendency for Latin American

countries to emphasize cash crops and commodity exports, which worsens the possibility of adequate nutrition for all.

7. The United States should not provide food aid or cheap food exports from market gluts to Latin America except in the case of a famine or other natural disaster. Such aid undermines local markets and producers, and can alter consumption habits, which are difficult to change back to locally produced goods. Restrictions on food aid will provide incentives for countries to support and develop their own rural economies.

## **Arms Sales to Latin America: To Be or Not to Be**

**Esteban A. Ferrer**

Partner,

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Council of the Americas

The problem with the topic of military sales to Latin American countries is in disassociating the stereotyped image of the military junta from the realities of life in a continent that seems, more than ever, to be affecting the political balance between East and West.

In the recent work "The Americas at a Crossroads," the Woodrow Wilson International Center for Scholars states an unassailable ideal: "Curb the flow of arms into the region." However, as one looks at this ideal, it is as unattainable as it is unassailable. The United States can only effectively stop the flow of arms to those whom we consider, for better or worse, to be the "good guys." To believe otherwise is to play the ostrich, hoping or pretending that allies such as Israel or France will also cease to sell to the governments in Latin America, and that the Soviet Union and its surrogates will, with what motivation not clear, stop the smuggling of arms to the rebels and professional revolutionaries in various areas throughout Central and South America.

To start, we have to remind ourselves that U.S. policy in the area of military preparedness has been, since World War II, to fund and supply materiel to our allies, under the theory that as long as the West was militarily strong, the East would refrain from offensive military or subversive action. Since very few countries have been able to afford a self-sufficient defense industry, the United States has, for many years, been the provider of weapons and systems to strengthen the military defenses of the west. The arms buildup of the west has been focused, as far as the public is

concerned, mainly on the NATO alliance. The security of Europe is, as always, paramount in the attention of the U.S. public. Yet little is known of the levels of military materiel assistance that countries that are out of the U.S. media spotlight receive, not only from the United States, but from other nations of the Western alliance.

In 1982, for example, the American taxpayer supported \$1.4 billion in security assistance programs for Israel. This is, of course, well known, and merits the approval of the American public, due to the gallant stand of Israel in a number of situations. But does the public know that in the same year it financed \$900 million worth of armaments to Egypt, \$400 million to Turkey, \$100 million to Sudan, \$11 million to Kenya, while Salvador received \$25 million and Honduras \$10 million? In that same year, the eastern Caribbean as a whole received only \$5.6 million in military assistance. The public probably does not know that for 1982, Tunisia received \$85 million, the Philippines \$50 million, and Spain \$125 million in guaranteed loans for military purchases. This includes not only arms systems and ammunition, but also other forms of direct security assistance. Nevertheless, these are military sales and loans that have been either financed or granted by the U.S. Administration and Congress.

All of this shows that Latin America does not deserve the excessive attention given to its military purchases. For 1984, the U.S. foreign military sales financing program has proposed amounts of up to \$88 million and the military assistance program requests \$109 million for the whole continent of Latin America, while proposals of foreign military sales guaranteed with loans from the Federal Financing Bank of the United States for 1984 include countries such as Egypt, with \$1.3 billion; Israel, with \$2.5 billion; and Spain, with \$400 million.

Obviously, there has been much more attention paid to our military allies and friends in Europe and the Middle East than to our military allies and friends in the Western Hemisphere. Yet within this same Hemisphere, according to the Department of Defense, Cuba has become a bastion of military capability. Its

regular armed forces exceed 225,000 men and women. Its air force has 200 MiG fighters. Six hundred fifty tanks are armed and operational. In 1981, the Soviets shipped in excess of 66,000 metric tons of military equipment to the island. In Nicaragua, as well, the government has announced its intentions to follow in Cuba's footsteps and build up an armed forces contingent of around 250,000.

In the face of these buildups, the question is whether there should be an arms race between the East and the West in this hemisphere, as there is elsewhere in the world, or whether the armed, subversive military might of Cuba and Nicaragua should be dealt with exclusively by diplomatic means.

To me, that is no question. The reality, unfortunate as it is, is that unless we aid the non-leftist regimes in the Americas to outpower their well-armed, subversive, and established opponents, there will be no leverage whatsoever for such diplomatic and economic solutions as have been proposed by many well-meaning persons in our country.

The other large issue that surfaces in relation to military sales to Latin America is the moral dilemma of spending money on bullets, where such funds and resources could best be invested in economic development. In our democratic commitment, we prefer the latter, but we must not forget that while we try to solve the problems of development, democratic institutions are being attacked with very live bullets, bombs, mortars, and abundant supplies of cash. While we agree that trafficking in drugs by Latin Americans is debilitating to our own society and against the best interests of the United States, we seem to be at odds as to whether trafficking in arms by subversive elements attempting to overthrow established governments within the Hemisphere should really be a priority concern of this country. I maintain that it should be so considered.

I believe that we need no further proof that armed rebellion in Latin American countries is often a prelude to a communist takeover. Peaceful overtures to the subversive left have proven to

be the granting of vacations from the government forces' military pressure, enabling the guerrillas to rest and reorganize before they start anew, with fierce vigor and plentiful logistical support, in their efforts to overthrow the established government.

While arms sales and arms grants must be a part of the Hemisphere's defense program, there is a valid argument against the continuous impoverishment of economically weak nations through the purchase of sophisticated weaponry. In 1984, at current trends, the nations of the world will owe the United States over \$20 billion in arms purchase loans. This does not help defeat inflation in the purchasing countries nor elevate those countries out of the economic morass in which their continuous borrowing for military and other purchases has brought them. A recent report to the Congress by the Comptroller General of the United States on the use of U.S. loans to support the foreign military sales is an eloquent document. According to that report, if we are to finance foreign military sales, the United States must return to the grant and low-interest direct loan programs it supported in the past, and must abandon the off-budget, high-interest loan program it has been pursuing since 1975. At that time, the U.S. administration started the complicated, off-budget military sales program in order to avoid the reaction of Congress against defense loans. We are now reaching a point where countries are defaulting on these off-budget loans, while the proposed objective of this type of financing is obviously going to fail. The U.S. taxpayer will again have to shoulder the defaults as part of overall budgetary financial commitments, whether the defaults be called the "replenishment of a guarantee reserve fund" or some other bureaucratic term.

The question of transfer of nuclear technology is, of course, an additional problem. A refusal to sell such technology to allies such as Brazil and Argentina has turned them to other Western Allies for the same purpose. Our refusal to sell sophisticated arms systems has had more or less the same results: Israel, France, and the USSR have sold considerable amounts of armaments to countries such as Brazil, Argentina, and Peru, not only substituting for U.S. defense systems, but debilitating the economies of

those countries with expenditures that are over and beyond what they would have made on U.S. armaments.

The certification of respect for human rights, when tied to arms sales, is somewhat like other examples of morality dictated by Congress in the face of the realities of international commerce, such as the Foreign Corrupt Practices Act. In the case of human rights, our standard is that we shall not sell arms to any government not giving due process of law to the subversive elements that are using arms in open rebellion. To believe that this is a just way of dealing with the problem is to admit ignorance of what a urban guerrilla war involves. To deprive the armed forces of a given country of logistical support is to demoralize them, and to grant aid and comfort to the subversive enemy. Although I am sure that no U.S. Government official wants to align him — or herself with guerrilla forces that do not shy away from murdering innocent people, we must maintain a posture of respect for the self-determination of these nations. If the government wishes to avail itself of armaments, we should either withdraw recognition of the government or fulfill the sales of non-sophisticated weaponry requested of us.

Finally, a word about the role of our own military. Too long has passed since the days in which the Interamerican Defense College and similar institutions were the meeting point of career military officers of the Hemisphere. In those days, significant close contact between U.S. and Latin American military personnel created channels of communication and understanding which, if they had been continued, could have helped in solving many of the so-called "human rights" problems which we now face. Without proper opportunity for exchange, few, if any, bonds of friendship and credibility will arise between our military and that of the nations to the south. The solution of sending in an army of advisors when a crisis arises might be the only one available at the time, but it certainly gives the impression of a foreign occupation force to the locals. If the United States will not actively participate in the war against the guerrillas in Latin America, and I do not think we will, we must arm, supply, comfort, and aid our friends in Latin America to the point where they can

themselves successfully defend their country against unwanted subversion regardless of their internal strategy or tactics.

The systems of assistance must include far more military, cultural, and educational exchanges than we have seen in recent years in the area. The United States sells some \$9 billion in military materials every year throughout the world. We have seen the comparatively small amount of those sales that goes to Latin America. I have no knowledge of who our friends in Yemen or in Tunisia might be, or of the reasons for the decision of our Congress to authorize high levels of military assistance to these countries. I do know that we should at least give the Salvadorians an even break, since the government has at least gone through the test of a national election. I have not seen election results from Tunisia, Yemen, or for that matter, from many of the other nations we assist in far greater volume than we do our friends in Salvador.

## Cultural Relations Between the United States and Latin America

Joaquin Roy

It is extremely curious to note that the few remarks related to cultural relations are always left to the concluding remarks of the reports published by innumerable commissions which have, for the past half century, recommended the main strategies of relations for Washington to maintain with respect to Latin America. It is not a matter of establishing priorities, but simply ratifying the fact that cultural aspects are always placed in the last paragraphs of these reports, if not relegated to mere footnotes.

One tends to forget, therefore, that relations between countries are not accomplished through massive transmigrations, nor even through the relatively short interviews held by heads of state. Relations between countries, historically speaking, are the effect of the transfer of ideas. The vehicles of this ideological migration are professors, students, books, magazines, newspapers, and all the other means of modern mass communication. Thus, when one speaks about the relations between the two fundamental areas of this continent (i.e., North American and Latin America), one must pay great attention to the proper vehicles for inter-American exchange. Without the transmigration of ideas, there would not be commercial, political, or even military exchange in the Americas.

The protagonists of future interchange of ideas are the youth of Latin America, who in the near future will transfer their points of view with their contemporaries of the United States. As we can see, then, the future of the United States in its relations with Latin America depends not on the quantity of capital goods to be traded across the Caribbean, nor on the magnitude of interstate bank deposits. Rather, the future of relations depends upon the knowledge gained and the attitudes generated by the college education of the present generation of American students — American in the broadest sense. The successes and failures

achieved during the next years will condition the political and social leanings of Latin American countries for years to come.

It is impossible to foresee the future, but perhaps we could deduce some consequences through the study of the present. Let us observe the present trends in relations between the United States and Latin America. In spite of the numerous scholarship programs for Latin American students, the United States admits only a small portion of Latin American students in its institutions of higher education, when compared to the massive amounts of scholarship students from other parts of the so-called Third World that annually go to study in the Soviet Union. The limited amount of scholarships granted to Latin American students affects only a specific sector of the Latin American population — precisely the well-to-do sector of Latin America which has always been able to obtain an excellent college education. This sector has made up the dominant socioeconomic elite for decades, if not centuries. So the system reinforces the prevailing structures, since those who graduate in the United States obtain jobs within their own social level once they return to their countries.

The private university's inability to grant scholarships to international students worsens this reality. The exorbitantly high tuition costs of most private institutions are out of reach of large sectors of even the upper classes of Latin America. The immediate consequence is that the children of the working class or their middle-class employers (not to mention the country dweller) can never aspire to an education of this kind. Broadly speaking, the higher education system within the United States favors only the most privileged sectors of Latin America.

Even though the various exchange programs for professors, specialists, experts, and researchers administered by the ICA or other U.S. agencies have maintained a certain level of offerings, they are still insufficient. Keeping in mind the endemic lack of communication between the two halves of the Americas, the reality is that, generally speaking, the history, culture, and languages of Latin America are still completely unknown to the great majority of North Americans. It can also be said to be true the

other way around, as stereotypes and misunderstandings are the norm among Latin Americans, who generally have but a superficial knowledge of North American culture and civilization. When one undertakes a systematic study of the attitudes of Latin Americans before and after they visit the United States, one can not a state of traumatic discovery. The country they had imagined does not really exist. The United States is something different.

On both sides of the cultural frontier of the Americas, one can perceive a lamentable absence of leadership, or of adequate models in leaders. U.S. public officials, even at high levels, frequently demonstrate an absolute ignorance of the languages and cultures a Latin American country may have. In Latin America, unfortunately, this situation has been duplicated, and the result is the need to use interpreters in order to maintain a dialogue.

If the U.S. government does not respond to this urgent need of interchange, by providing better and more numerous scholarships, the states that border Latin America will have to take on this obligation. Accordingly, the state of Florida should allocate a substantial amount in order to invite Latin American students of all social classes to come to this country to study. Historically, the problem with international students has consisted of the likelihood that those graduating would stay in the United States, and thus contribute nothing to the development of their own countries. This problem could be solved, however, by granting scholarships for a limited number of years (not equal to the number of years needed to acquire a degree) and by not allowing these graduates to practice their professions here in the United States; but rather, by inviting them to finish their studies and begin their professional careers in their own countries.

In the event that the function of both federal and state governments remains inadequate, it would be up to private initiative to take an active stance in this area. The social, political, and economic health of the southern states should hold a relevant position with respect to the strategic policies of North American companies that operate in Latin America. It is to our benefit to see that Latin America has effective leadership, knowledgeable of

the realities of the United States and willing to work for a common future.

Multinational companies should, therefore, increase their scholarship budgets for Latin American students, keeping in mind that it is better to extract the best minds of all social classes, especially those that belong to the most-needy sectors. At the same time, the Federal Government should grant attractive tax exemptions, so that it would be practically impossible to reject this type of collaboration. On the other hand, the institutions that would benefit most directly from this plan would be the private universities.

Finally, in order to improve the potential for good relations between the two Americas, we must improve our human relations. In order to cure the causes of incomprehension, we must first know, once and for all, which are the cultural aspects that most differentiate us. There is no better vehicle than written expression to know how people think. Knowledge of Latin American literature is unforgiveably rare in the United States. It barely reaches the university's redoubts, and even then is limited to departments of languages. North American literature in Latin America is likewise reserved to the minority of people that have been able to read the American classics, most frequently in translated versions.

This situation must change, but to do so the Federal and state governments, together with private initiative, should unite their efforts and launch massive editions, in both languages, of the best works of literature. These can then be distributed throughout the Americas. In the meantime, those studies which are dedicated to the resolution of cultural conflicts between Latin America and the United States should receive top priority in budgets specially designed for this type of research. For example, investigations about the perception of the United States in the minds and writings of the Latin American intellectual community, and the influence of such perceptions on politics, should receive preferential status in research subsidies. A systematic study of the image which the United States projects through the mass media is

clearly in the national interest.

Although official and private initiatives are an important part of the urgent task of reaching mutual understanding, one must never forget that the best chapters of inter-American relations have been written by the frequent travellers, merchants and normal citizens. The elevated costs of transportation between the United States and Latin America (it is twice as expensive to fly to Buenos Aires as to fly to London) contribute another obstacle to the already difficult task. Postal tariffs should also be revised dramatically and extended to include Canada, in order to encompass the entire American continent.

Governments and companies could establish a transmission center from which books and other informational material could be sent free of charge. Likewise, governments should promote the use of shortwave radio receivers, so that the voices of the different countries of the Americas can reach throughout the United States. The possibility of sending television programs by satellite makes it necessary to include this medium, and all its derivatives, as a primary source for language instruction.

The CHAIRMAN. Thank you, Ambassador Moss, very much indeed.  
Mr. Phillips.

**STATEMENT OF HOWARD PHILLIPS, THE CONSERVATIVE CAUCUS, VIENNA, VA.**

Mr. PHILLIPS. Mr. Chairman, thank you for your invitation.

My name is Howard Phillips. I am chairman of the Conservative Caucus. I will abbreviate my testimony.

Having rejected the Monroe Doctrine as insufficiently contemporary, the Kissinger report is equivocal when it speaks of how to address the Soviet military challenge and suggests that the goal of U.S. policy should be to achieve a negotiated settlement with the Soviet-backed regime in Nicaragua.

The report is more certain and thorough in advocating substantial nondefense expenditures, although there is little basis in experience for its apparent confidence that more U.S. taxpayer-subsidized socialism will produce indigenous productivity or enduring prosperity.

There are at least three important points of reference which may properly serve as guides for analysis in our present difficulties, illuminating, as they do, serious errors of past policy with consequences which continue to plague us:

First, during the 1962 Cuban missile crisis the Kennedy administration, in return for a Soviet pledge to remove the offensive missiles which it had just installed in Cuba, and in the context of assurances that Generalissimo Castro's military dictatorship would no longer strive to export Marxist-Leninist terrorism, revolution and guerrilla warfare, was perceived to have pledged that the Communist base, 90 miles from Florida, would henceforth enjoy immunity from any U.S.-based or initiated military challenge.

Today, as a result of the incremental disregard of the principles of the Monroe Doctrine which has followed from that perception and by reason of our Government's unilateral, unrequited restraint through successive administrations, Cuba is increasingly being used as a hemispheric base for Soviet nuclear-capable aircraft and submarines, as well as a nest for the training and export of terrorists, subversives, guerrillas, and drug traffickers.

Second, in Vietnam, unwilling to challenge our enemy's privileged sanctuaries in North Vietnam and without a clearly defined strategy of victory, our Government squandered millions of lives and billions of dollars.

It is encouraging that our present leaders have, during the past 2 years, been willing to assist freedom fighters inside Nicaragua who seek to deny the enemies of liberty a permanent sanctuary in that country. But it would be reprehensible if the freedom fighters were now merely being used as pawns to inspire negotiations. It will not serve our long-term interests to persuade the Sandinista totalitarians to make limited negotiating concessions which merely legitimize their ongoing political control.

Billions spent to win the hearts and minds of our Central American neighbors through socialist experimentation will likely prove as irrelevant to the military threat posed by Fidel Castro and his Soviet allies in 1984 as were the billions spent in Indochina irrelevant to the

military challenge of Ho Chi Minh and Ngo Guyen Giap in 1964 and 1974.

Third, more recently, just a year before the Sandinistas seized power in Nicaragua, the U.S. Senate in 1978 ratified treaties which surrendered our Government's ability to bar Communist vessels bearing military equipment from freely transiting what was previously the American Canal and Zone at Panama. According to the Kissinger Commission, an estimated 15,000 tons of Soviet bloc arms and equipment reached the Sandinista army in 1983.

That is the context of experience from which the recommendations of Dr. Kissinger and his associates, some of them personally involved in the policy errors to which I have referred, ought to be considered.

It sometimes seems that the economic aid package proposed by the Commission, which says that "External financing needs between now and 1990 have been estimated at as much as \$24 billion," is designed as a little bit of sugar to help the medicine of military aid go down the gullets of wavering legislators. But the sugar is very expensive and the medicine prescribed seems not to be of a dosage or kind sufficient to cure the disease of Marxist-Leninism which infects Central America.

Is the defeat of communism in Central America made more likely, for example, by the Commission's recommendation that the United States underwrite more population control and family planning programs? Do we advance American principles of property rights and free enterprise by encouraging the expropriation and collectivization of private farms in the name of agrarian reform?

At a time when United States students are competing for college enrollment vacancies and working to earn tuition dollars, however noble the intent, is it just or necessary to further tax them and their parents in order to bring an additional 10,000 Latin American students to the United States, as the Commission has proposed?

And, troubled as is our own educational system, with significant controversies regarding the proper role of the Federal Government, do we want to establish what in effect would be a new Federal Department of Education for the region in the context of what the Commission calls "a long-term plan to strengthen the major universities in Central America"—universities which, according to the Commission, "have become highly politicized, more concerned with political activism than with educating students to meet the concrete needs of their countries."

Do we truly serve the cause of stable development by committing our Government to yet more billions of dollars of loans and loan guarantees, at least some of which would be used to service questionable extensions of credit by banks ever ready to have American taxpayers share in the risks, but not the rewards, of their various financial enterprises?

There are other items in the Commission's grab bag of recommendations which seem less than immediately relevant to the central need of defending America's vital interests against the growing Soviet geo-strategic challenge in Central America: Expansion of social insurance programs, training of public administrators, agricultural price supports, and much more.

Particular components of this Great Society-style vision for Central America may be worthy, but even if comprehensive implementation of

the plan were, after close study, deemed to be desirable, absent an over-arching, clearly defined strategic purpose, its implementation would once again involve a dissipation of American resources in the vain hope that democratic socialism can defeat determined Soviet-backed aggression.

We can be grateful for the Commission's willingness to concur in the provision of such additional amounts of military assistance as may be necessary to prevent a military defeat in El Salvador. But those funds, as essential as they are in even greater amounts than the Commission has suggested, will at best have only a tactical value. El Salvador will continue to be in jeopardy until we rid Nicaragua of totalitarianism and Soviet control. And America's own security will be at risk so long as Cuba is the arsenal, harbor, and launch pad for Soviet adventurism in the Gulf of Mexico and throughout the region.

We will not defeat Soviet machineguns, hand grenades, and tanks by spending \$8 billion on social and economic experimentation, even if every \$10 million unit of that total were authorized and expended with the utmost care, skill, and integrity.

The first step in a plan to restore regional security should be a policy standard which, if upheld, would once again declare foreign imperialist-colonialist intervention in the hemisphere to be illegitimate. The Monroe Doctrine well served our Nation and our neighbors from 1923 to 1959. It is past time to reassert it as the basis for our policy.

Clearly, neither democratic socialism nor Great Society liberalism is an adequate response to a Soviet-inspired military challenge.

It is of little help to crime's victims to attribute the perpetrator's sin to poverty, illiteracy, hunger, and disease, particularly so long as the criminals are still at large in their neighborhood. Similarly, it is self-indulgently irrelevant to suppose that a sociological response to the crimes of Marxist-Leninism will be of any help to its victims, whether they live now in Central America or later in the United States of America.

Thank you, Mr. Chairman.

[Mr. Phillips' prepared statement follows:]

## PREPARED STATEMENT OF HOWARD PHILLIPS

Mr. Chairman. Members of the Committee.

All Americans should be thankful that the members of the Kissinger Commission, even those who approach policy questions from a left perspective, have at last joined in acknowledging that the Soviet geostrategic threat in Central America and the Caribbean is real and growing.

As belated as this recognition may be for some, our sense of urgency and desire for prompt action should not lead to hasty or ill-considered policy decisions.

Rejecting the Monroe Doctrine as insufficiently contemporary, the Kissinger report is equivocal when it speaks of how to address the Soviet military challenge, and suggests that the goal of U.S. policy should be to achieve a negotiated settlement with the Soviet-backed regime in Nicaragua, in the context of accepting the permanence of the Soviet presence in Cuba.

The report is more certain and thorough in advocating substantial nondefense expenditures, although there is little basis in experience for its apparent confidence that more U.S. taxpayer-subsidized socialism will produce indigenous productivity or enduring prosperity.

There are at least three important points of reference which may properly serve as guides for analysis in our present difficulties

--- illuminating, as they do, serious errors of past policy with consequences which continue to plague us:

First, during the 1962 Cuban Missile Crisis, the Kennedy Administration, in return for a Soviet pledge to remove the offensive missiles which it had just installed in Cuba, and, in the context of assurances that Generalissimo Castro's military dictatorship would no longer strive to export Marxist-Leninist terrorism, revolution, and guerrilla warfare, was perceived to have pledged that the Communist base, 90 miles from Florida, would henceforth enjoy immunity from any U.S. based or initiated military challenge.

Today, as a result of the incremental disregard of the principles of the Monroe Doctrine which has followed from that perception and by reason of our government's unilateral, unrequited restraint, through successive administrations, Cuba is increasingly being used as an hemispheric base for Soviet nuclear-capable aircraft and submarines, as well as a nest for the training and export of terrorists, subversives, guerrillas, and drug traffickers.

Second, in Vietnam, unwilling to challenge our enemy's privileged sanctuaries in North Vietnam, and without a clearly defined strategy of victory, our government squandered millions of lives and billions of dollars.

It is encouraging that our present leaders have, during the past two years, been willing to assist freedom fighters inside Nicaragua who seek to deny the enemies of liberty a permanent sanctuary in that country. But it would be reprehensible if the freedom fighters were now merely being used as pawns to inspire negotiations. It will not serve our long-term interest to persuade the Sandinista totalitarians to make limited negotiating concessions which merely legitimize their ongoing political control.

Further considering lessons to be derived from our "no win" policies in Vietnam, we should remember that many of the same social and economic policies now advocated for application in Central America, were subsidized and espoused then, even by persons participating in this bipartisan commission.

Billions spent to win the "hearts and minds" of our Central American neighbors through socialist experimentation will likely prove as irrelevant to the military threat posed by Fidel Castro and his Soviet allies in 1984 as were the billions spent in IndoChina irrelevant to the military challenge of Ho Chi Minh and Ngo Guyen Giap in 1964 and 1974.

Third, more recently, just a year before the Sandinistas seized power in Nicaragua, the U.S. Senate, in 1978, ratified treaties

which surrendered our government's ability to bar Communist vessels bearing military equipment from freely transiting what was previously the American Canal and Zone at Panama.

In consequence of these ill-advised treaties, The New York Times reported, on August 2, 1983 that "The Soviet freighter Ulyanov, which was noted by President Reagan in his news conference last week, passed through the Panama Canal from the Caribbean over the weekend and was headed for the port of Corinto on Nicaragua's Pacific coast. The Ulyanov," continued the Times, "is the 10th ship from the Soviet Union or its East European allies to go to Nicaragua with military supplies this year...compared with five in 1982. In addition...10 other Soviet bloc ships, mostly from the Soviet Union, are bound for Nicaragua and should arrive within the next few weeks." According to the Kissinger Commission, "an estimated 15,000 tons of Soviet bloc arms and equipment reached the Sandinista army in 1983."

Furthermore, new expenditures for military training and basing facilities in Honduras are now required to replace assets which we formerly enjoyed in what was once the U.S. Canal Zone.

That is the context of experience from which the recommendations of Dr. Kissinger and his associates, some of them personally involved in the policy errors to which I have referred, ought to

be considered.

It sometimes seems that the economic aid package proposed by the Commission which says that "External financing needs between now and 1990 have been estimated at as much as \$24 billion," is designed as "a little bit of sugar to help the medicine" of military aid go down the gullets of wavering legislators.

But the sugar is very expensive, and the medicine prescribed seems not to be of a dosage or kind sufficient to cure the disease of Marxist-Leninism which infects Central America.

Is the defeat of Communism in Central America made more likely, for example, by the Commission's recommendation that the United States underwrite more "population control" and "family planning" programs?

Do we advance American principles of property rights and free enterprise by encouraging the expropriation and collectivization of private farms in the name of "agrarian reform"?

At a time when U.S. students are competing for college enrollment vacancies and working to earn tuition dollars, however noble the intent, is it just or necessary to further tax them and their parents in order to bring an additional 10,000 Latin American students to the United States, as the Commission has proposed?

And troubled as is our own educational system, with significant controversies regarding the proper role of the Federal government, do we want to establish what in effect would be a new Federal Department of Education for the region in the context of what the Commission calls "a long-term plan to strengthen the major universities in Central America" --- universities which, according to the Commission, "have become highly politicized, more concerned with political activism than with educating students to meet the concrete needs of their countries."

Do we truly serve the cause of stable development by committing our government to yet more billions of dollars of loans and loan guarantees, at least some of which would be used to service questionable extensions of credit by banks ever ready to have American taxpayers share in the risks, but not the rewards, of their various financial enterprises?

There are other items in the Commission's grab bag of recommendations which seem less than immediately relevant to the central need of defending America's vital interests against the growing Soviet geostrategic challenge in Central America and the Caribbean: expansion of social insurance programs, training of public administrators, agricultural price supports, and much more.

Particular components of this "Great Society"-style vision for Central America may be worthy, but even if comprehensive imple-

mentation of the plan were, after close study, deemed to be desirable, absent an overarching, clearly defined strategic purpose, its implementation would once again involve a dissipation of American resources, in the vain hope that democratic socialism can defeat determined Soviet-backed aggression.

We can be grateful for the Commission's willingness to concur in the provision of such additional amounts of military assistance as may be necessary to prevent a military defeat in El Salvador.

But those funds, as essential as they are, in even greater amounts than the Commission has suggested, will, at best, have only a tactical value. El Salvador will continue to be in jeopardy until we rid Nicaragua of totalitarianism and Soviet control. And America's own security will be at risk so long as Cuba is the arsenal, harbor, and launch pad for Soviet adventurism in the Gulf of Mexico and throughout the region.

We will not defeat Soviet machine guns, hand grenades, and tanks by spending \$8 billion on social and economic experimentation, even if every \$10 million unit of that total were authorized and expended with the utmost care, skill, and integrity.

The first step in a plan to restore regional security should be a policy standard which, if upheld, would once again declare foreign imperialist-colonialist intervention in the hemisphere to

be illegitimate.

The Monroe Doctrine well served our nation and our neighbors from 1823 to 1959. It is past time to reassert it as the basis for our policy.

Clearly, neither democratic socialism nor Great Society liberalism are an adequate response to a Soviet-inspired military challenge.

It is of little help to crime's victims to attribute the perpetrator's sin to poverty, illiteracy, hunger, and disease, particularly so long as the criminals are still at large in their neighborhood.

Similarly, it is self-indulgently irrelevant to suppose that a sociological response to the crimes of Marxist-Leninism will be of any help to its victims --- whether they live now in Central America, or later in the United States.

**The CHAIRMAN.** Thank you very much, Mr. Phillips. We have had a provocative panel. I would like to yield at this time to Senator Kassebaum, who must leave early.

**Senator KASSEBAUM.** Thank you very much, Mr. Chairman.

Mr. Phillips, I guess because you finished last, I would like to start with you. I gather that you were really saying what others have said in one context or another, and that is, go to the source. Is this what you are advocating? Would you invade Cuba?

**Mr. PHILLIPS.** What I am saying, in essence, is that the problem which the Kissinger Commission is to address is a problem which has at its heart a colonialist intervention by the Soviet Union, which is based in Cuba, and that, in order to deal with that problem, it is insufficient to address it in purely sociological terms. We must have as our standard a restoration of the Monroe Doctrine, and our goal should be the removal of Soviet power from Cuba.

That does not require a U.S. invasion, and I wanted to preface that, because a simple statement of toppling the military dictatorship in Cuba could be taken out of context and misinterpreted. I think it is important for us to clearly have as our goal the removal of Soviet power from Cuba, and that we should do everything possible to prevent the further use of Cuba as a military base. After all, in 1962, shortly before President Kennedy himself issued a statement on the Cuban missile crisis, Congress passed a resolution in both Houses indicating its intent to prevent a further Soviet military buildup in Cuba.

As Dr. Kissinger has himself pointed out, the Soviet Union has moved forward that buildup, and because it has been incremental, our response to it has been inadequate.

**Senator KASSEBAUM.** I think we would all concur with that. I was just curious, since you did not believe the Kissinger Commission report answered it, how precisely you would address it.

**Mr. PHILLIPS.** Well, the first step would be to say that that is our goal.

**Senator KASSEBAUM. Cuba?**

**Mr. PHILLIPS.** I think that is something that certainly should be considered. I think we should consider the possibility of establishing a government in waiting, if not in exile, for Cuba, possibly even ceding Guantanamo to an anti-Communist, prodemocratic Cuban Government which would give it a foothold on that island.

**Senator KASSEBAUM.** Mr. Leiken, you have written in the past a piece that has been widely, I think, recognized called Soviet Strategy in Latin America. How do you analyze the present Soviet-Cuban influence there, and what recommendation might you have? Do you see this as really the source that we have to address?

**Mr. LEIKEN.** The main asset that the Soviets and the Cubans have going for them in Central America and in Latin America is the residue of anti-Yankee sentiment, a reaction to what is perceived there as a history of colonialist-type intervention in the region.

That has been the reason why they have been able to profit from the indigenous sources of crisis and dependence in the region. So that is a real danger. Should the measures we design against the current Soviet-Cuban problem in Central America be too extreme, be evocative of previous history, of previous interventions, we will widen the problem,

deepen the problem, and sow the seeds for a much greater Soviet problem there.

As I said earlier, the Soviets have been on the defensive internationally, recently, and they have been retreating in Central America. The Cubans have also been much less active, and have been more receptive to negotiations.

It is interesting to note that they invited a leader of—or a representative of one of the dissident groups, one of the insurgent groups in Nicaragua, Eden Pastora's group, to meet in Cuba to talk about negotiations in Nicaragua, a rather extraordinary invitation to talk with the insurgents fighting against one's own client state. That is one indication of the fact that the Cubans do now support negotiations in the region.

Now, the question is, obviously, is this just a tactical move? Will they then move back and attempt to export revolution, et cetera? I think that will depend on our policies down there. If we promote a regional settlement in the region, if we then support that with economic aid and trade concessions, and I would agree with several of the speakers who emphasized the need to allow Central American imports, exports into our market. That is more important really than aid. If we create economic conditions and begin to deal with the underlying problems, then we can use that pause, that tactical pause, far better than the Soviets and the Cubans can use it.

Senator KASSEBAUM. Thank you.

I know that time gets short here, but I would like to follow on with your comment on the importance of imports or exports to the region. Mr. Marks, you addressed the economic concern of the business community. Would you be supportive of a strong nontariff barrier policy for us here in the United States to goods coming in from the Central America region?

Mr. MARKS. I certainly would be, and we have been in the past. The point you have made—

Senator KASSEBAUM. Well, we still have a number of protective measures, of course.

Mr. MARKS. Yes. Yes, we do. Even though our organization—some members of our organization would be affected in their operations in the United States, the overwhelming point of view is that they would be better affected in the long run by allowing trade to grow. Many U.S. manufacturers have lost jobs and money, perhaps 400,000 jobs have been lost because countries in the developing world, principally in Latin America, are unable to import what they used to import.

In order for them to be able to import once again from us, trade has to grow, we have to provide financing and a market. Both are necessary for there to be a revitalization of the productive sectors. And it seems to me that the stabilization in both political and economic terms in Central America cannot be realized until that occurs, until there is a revitalization. You must first fill the excess capacity. In Central America, brand new investment is not the major problem. The major problem is to provide employment in factories which already have the fixed assets, and formerly produced products of very fine quality.

So, yes, we must allow that product to come into the United States. It will not go anywhere else. The European countries have indicated

very clearly that they will not take it, and there are no other markets. It must come to the United States.

Senator KASSEBAUM. Thank you very much.

Mr. Chairman, I appreciate your letting me go out of turn.

The CHAIRMAN. Thank you very much indeed, Senator Kassebaum. Senator Dodd.

Senator Dodd. Thank you, Mr. Chairman.

Before getting to your questions—yesterday I had an exchange with Dr. Kissinger about the Contadora nations and the support they expressed for the Kissinger Commission report. I am sure both of my colleagues saw the piece in the New York Times today regarding the press interview—the first time that the President of Mexico has had a meeting with the foreign press—in which, among other things, he cautioned on the recommendations of the Kissinger Commission report.

I would ask, Mr. Chairman, that that story be included in the record. I think it is worthwhile.

The CHAIRMAN. It already has been incorporated in the record.

Senator DODD. Second, there is a periodical called Business Latin America. It is a part of Business International, which is a 30-year-old organization. I had the pleasure of speaking to them this morning. They represent major corporations doing business in Latin America, and they publish a weekly series of reports not just on Latin America but on other areas of the world as well, for managers of Latin American operations.

While much of their report covers business interests in the area, they did do an analysis of the Kissinger Commission report, particularly a page where they analyzed the Contadora nations' response to the report. This came out on January 18, by the way, not just this week, and I thought it was interesting to note that in the case of Mexico, Colombia, and Venezuela, the reports from those countries and the foreign ministers is certainly less than enthusiastic, as we know now from President de la Madrid yesterday.

Particularly, the Colombian foreign minister, in a radio address there, said the proposed deluge of military and economic aid—he was talking about the Kissinger Commission report—could undermine Central American countries' independence in international affairs.

In Venezuela, the deputy foreign minister assessed the report as an insignificant contribution to U.S. policy in Central America, while praising the importance placed on economic aid.

Yesterday, Dr. Kissinger and others indicated there was overwhelming support among the Contadora nations for the Kissinger Commission report. This document, which could hardly be called an organ of leftist liberalism, suggests in its analysis something quite the contrary, and I would ask that that page of this report be included in the record as well.

The CHAIRMAN. It will be included.

[The material referred to follows:]

[From Business Latin America, Jan. 18, 1984]

#### DR. KISSINGER AND CONTADORA

How Latin America reacts to the Kissinger commission report on Central America will largely determine the tone of US relations with its neighbors to the south over the coming months—a tone that could reverberate into the

business community. Especially significant are the views of the Contadora Group—made up of Mexico, Panama, Colombia and Venezuela—whose governments have been involved in an intense effort over the past year to find peaceful solutions to the conflicts in Central America. Below, BL reports on how officials and the public in these countries regard the Kissinger commission's findings.

The attempt by the Kissinger commission to reconcile in its report two often-conflicting analyses of the causes of Central America's woes—(1) as originating in socioeconomic conditions, which should be addressed by political means and foreign aid, or (2) as born of Soviet-Cuban intervention, which must be checked militarily—has led to some confusion among Contadora nations as to its meaning for the regional peace process initiated by the Contadora Group. While the commission's report praises the four-nation negotiating effort, it appends the telling caveat that "the United States cannot use the Contadora process as a substitute for its own policies." This ambiguous statement of endorsement has led to varying interpretations of the report among the Contadora nations:

Mexican observers and politicians—of both the ruling party and the opposition—have greeted it with skepticism, seeing it in general as a simplistic rerun of the "domino theory" in vogue during the days of the Vietnam war. Officials have read the report as a contradiction of the Contadora process in that it calls for greatly increased military aid to Honduras and El Salvador while vaguely endorsing US backing of anti-Sandinista guerrillas attacking Nicaragua from Honduras. One editorialist described the Kissinger/Contadora contradictions as "dialogue and reform vs war and mini-Marshall." Essentially, the Mexicans question the sincerity of US support for Contadora and fear that the Kissinger proposals' emphasis on military solutions will further undermine the regional peace effort.

Colombia's Foreign Minister Rodrigo Lloreda Caicedo read the report somewhat differently, finding in the text an acknowledgement that a political solution to the Central American conflagration is both desirable and possible. In a local radio interview, the minister observed that the report neither endorsed nor contradicted the Contadora point of view, although he expressed concern that the proposed deluge of military and economic aid could undermine Central American countries' independence in international affairs.

Opinions in the nation's dailies have been mixed: The Liberal *El Tiempo* came down clearly in favor of the report's East-West interpretation of the conflict, while *El Espectador*, in an editorial entitled "El que paga manda" (the one who pays is the boss), dismissed the report as a simple reiteration that Central America is the United States' backyard—and you'd better not forget it!

While no official response has yet emerged from Panama, the local press has responded favorably to the report. Venezuela has been similarly slow to react, although Deputy Foreign Minister Oswaldo Paez Pumar assessed the report as an insignificant contribution to US policy in Central America, while praising the importance placed on economic aid.

**SENATOR DODD.** I think that underscores the point. Obviously, the receptivity of the Contadora nations to the recommendations of the Kissinger Commission report is vitally important.

Also, Mr. Chairman, Senator Biden had asked that several questions be submitted to our panel for their response, and I would ask unanimous consent that those questions be submitted for the record on his behalf.

**THE CHAIRMAN.** Without objection.

**SENATOR DODD.** Mr. Phillips, let me begin with you. I am intrigued by something, and if you disagree with my first statement, I will not pursue it. But my assessment is that Ronald Reagan is certainly, in modern American political history, the most conservative President we have had. I cannot think of anyone whom we would consider more conservative than President Reagan. Do you agree with that?

**MR. PHILLIPS.** Well, I would say that circumstances, as well as responses to circumstances, have, in a sense, made each successive President in the past two or three decades more liberal than his predecessor. This can be measured, for one thing, in terms of the size of budget

deficits. But, rather than try to comprehensively characterize the nature of the Reagan Presidency, let me say that I think certainly I understand what you are saying, that President Reagan came to office as a committed anti-Communist, and remains one.

Senator DODD. And a conservative.

Mr. PHILLIPS. Yes.

Senator DODD. I would hate by your definition to assume that President Reagan is more liberal than Jimmy Carter.

Mr. PHILLIPS. Well, I would argue that a failure to arrest the growth of the Federal role in our economy has made each Presidency more liberal. Today the total GNP is about \$4 trillion, and about a fourth of that is consumed by the Government. That is a bigger percentage than we have had in the past.

Senator DODD. Well, I have not used that definition, but I am going to take your lead, and I think I will henceforth describe him as more liberal than Lyndon Johnson. [General laughter.]

The reason I ask that is, as the head of the Conservative Caucus you obviously follow the actions of the President very closely. How do you explain the fact that the President has endorsed a report which in fact calls for population planning, economic assistance of all kinds, a sociological avenue—there is a whole series of things. How do you explain that an individual—Who is the President on this thing?

I am familiar with his rhetoric, as you are, in speeches prior to his election. Here you have the appointment of Dr. Kissinger. You have a whole raft of suggestions in here that seem to raise some questions about whether or not—about where the President is on all of this. I am a bit confused. How do you explain it?

Mr. PHILLIPS. Senator, the President will have to speak for himself. I cannot speak for him. It is possible that a great many people have not read the report, perhaps including the President. [General laughter.]

What I would suggest is perhaps something different. I think that the President, understandably, is concerned about the extent of the military threat in this hemisphere which emanates from the Soviet Union. I think he is concerned about the possibility that El Salvador could well become a Marxist-Leninist military dictatorship as Nicaragua did, and I think what I suggested in my testimony is fairly close to the mark, namely, that the President and his advisers have concluded that, in order to secure congressional support for what they believe to be necessary military expenditures, they have had to provide a spoonful of sugar to help the medicine go down, in the form of economic aid.

I think it is probably as simple as that.

Senator DODD. I just read into the record some comments reported in the New York Times and in the Business Latin America report on the Contadora nations' response to the Kissinger Commission recommendations. I would ask, beginning with you, Ambassador Moss—with your Miami report, obviously you get a lot of the business community and a lot of contact as well. Then I would ask you all to proceed down the line:

Can any of you, other than with the sources I have just cited, give us some indication what has been the reaction within the business community—reporting back from their business associates, if

you will, or from the official community of any of the Contadora nations—how do they perceive the Kissinger Commission report and its recommendations?

By the way, let me commend this panel, Mr. Chairman. I think we have had some very worthwhile testimony this morning, some very enlightened testimony, representing what I think is a rather broad spectrum. But there are significant common denominators that are emerging in your comments. I presume there was not collusion ahead of time on your comments.

Mr. PHILLIPS. I can assure you of that.

Senator DODD. All right. Well, let me commend you for that. I want to ask you if you can comment. Perhaps this is a tall order. But if you do have any information in this regard, I think the committee would appreciate it.

Ambassador Moss.

Ambassador Moss. Senator Dodd, I frankly have received very little feedback directly from Latin America, but I have spoken with five or six people from Venezuela, Panama, and other places. First of all, I do not think you are going to find any Latin Americans who will say they do not want an \$8 billion aid program. So even though they tell you they favor trade over aid, nonetheless they are going to tell you they think that the aid is a good thing as well. They would rather have both.

I have received some comment from thoughtful Venezuelans that the Kissinger Commission report, whereas it made a reference to the problem of debt and servicing the debt, was not strong enough on that point, and should have said that Federal budget deficits and the present system of refinancing debt is inadequate to solve their particular problems.

Turning to the Contadora group and its role. I have found a certain degree of disappointment that more responsibility was not put directly and explicitly on the backs of the Contadora group countries in order to solve the regional problems. They recognize that they have a lot of differences among themselves, and they will be the first to say in many respects that they are poorly organized and have not taken the initiative to the degree they should have. But they are very sensitive and very wary that the United States may in subtle and sometimes less subtle ways be undercutting their efforts with faint praise.

There is, I think, a certain sensitivity there.

Senator DODD. Thank you.

Mr. Marks.

Mr. MARKS. Senator Dodd, we have had very close contact with the business community from those countries, the Contadora as well as the Central American republics. Just at the end of last week we had two meetings in New York, one which included very senior business people from around the hemisphere, and a following one which was limited to Central Americans.

In the earlier meeting, which included business people from Venezuela, Colombia, Mexico, and Panama, there was overwhelming support from the private sector, overwhelming support for the Kissinger Commission report, as a matter of fact, great recommendation and commendation. There was not a dissenting voice there, but once again, that was a very senior level business group meeting.

In the case of the Central American business representatives, in a separate meeting, I think you can imagine there was overwhelming support for the Kissinger report, including, of course, representatives from the private sector in Nicaragua.

Senator DODD. Thank you.

Mr. LEIKEN.

Mr. LEIKEN. Well, there are a couple of things to be said, echoing Ambassador Moss's comment. It is obvious that the Central Americans are delighted with the prospect of increased funds going down to the region. How those funds will be used and what they expect to gain from them is quite another question. Here I am speaking of Central American business interests. There is quite a different reaction among other sectors, the political sector, the labor sector, the peasant sector, because what they feel is that the report is going to make it more likely that the so-called shield, the U.S. shield, will be turned into a sword, and that the United States is going to reassert hegemony over the area which they do not feel has been productive for them in the past.

That, I think, also explains part of the Mexican reactions. I think the Mexicans are very concerned that an increased military presence in the region will cause them internal problems. It will feed into the anti-Yankeeism and will help to polarize Mexico, which is in a fragile situation already.

The same is true in another sense for the other major industrial countries, all of whom are facing economic crises, which, instead of being focused by the Kissinger report, have been ignored by it. We ought to be paying a lot more attention to the situation, for instance, of Argentina. Last night I was at the Argentine Embassy, at a celebration of the revival of democracy there and of respect for human rights. There was a notable absence of administration and Republican Party officials there, which I thought was unfortunate given the Reagan administration and the Kissinger report's emphasis on democracy. But there is a democracy that has serious economic troubles. There is a concern that this single focus on Central America is going to be unhelpful for those countries.

Finally, it is not only the Contadora countries and other Latin American countries which unhappily have received the report with disappointment. Latin American experts in this country are equally disturbed. We had a meeting at Carnegie a couple of weeks ago, and it was virtually unanimous among a group of Central American experts that the report is not going to improve the situation in Central America.

Finally, just one last comment. Your question is a very important one, and what has struck me in all of this has been how little reaction there has been, printed reaction, media coverage of the views of Central Americans and of Latin Americans to the Kissinger report. I mean, after all, it is Central America which has the most at stake here. I wish there were some way for the Congress and for the administration to have much more contact on a wider scale and a more representative scale with Central Americans and ask them how they feel about it.

Senator DODD. Thank you.

Mr. FEINBERG. I have picked up a sort of differential reaction, as I think one would really anticipate, that Central America is very

divided politically, and therefore you get different reactions to a report of this sort. Some people I think perhaps reflecting the view, say, of Mr. Phillips, still see the report as waffling on the U.S. security commitment, still do not like conditionality, still do not like the emphasis on the agrarian reform. Those are essentially the business sectors in Guatemala or El Salvador, for example.

On the other hand, among the other sectors, of course, everyone is pleased with the idea of accepting aid. I mean, who would not be? On the other hand, they do worry that a massive infusion of aid controlled in a bilateral fashion by the United States would deprive them of what limited sovereignty they have left. I think there is some concern on that score.

Now, a lot depends on how the aid is ultimately channeled. What are the mechanisms? Are they United States? Are they multilateral? What participation do the Central Americans actually have? Is it merely a monitoring point of view in which you sort of sit back and occasionally comment at a meeting dominated by Americans, or do they really have an important input in the basic design and implementation? Those things are yet to be decided upon, but I think there is concern that perhaps there will not be sufficient regional participation in the economic program.

Finally, I would just echo what Bob said. I think most Latin Americans, certainly South Americans, think that we are giving much too much emphasis to Central America, and that we are losing the big picture of the hemisphere.

Senator Dodd. I would just note and mention to the chairman as well that a country we are not paying any attention to, or a very limited amount of attention to, is Peru, which I think is in serious trouble. For Peru, some economic assistance, some meaningful economic assistance at this political juncture, could make the difference. I just mention that in passing.

Mr. Chairman, I talked with Larry Eagleburger the other day, and I know he is concerned about it, deeply concerned about it. I think we ought to take a look at that in particular. I think when we start looking at the authorization bill and specific countries, Peru is really in serious need of help.

In any case, I appreciate your comments. Mr. Krauss.

Mr. KRAUSS. It does not strike me as odd that other nations or regions are concerned that they are being left out. After all, for a giant giveaway like this, it is not surprising that everybody wants to get a piece of the action. I would not put too much credence in that.

Also, in asking how businessmen react to it, I really cannot say how businessmen in Latin America are reacting because I really do not know very many. But I would say it would be hard for me to visualize businessmen in Latin America being adverse to the Kissinger report. Very few people turn down a free lunch, especially when it is at Lutece, which is probably the best restaurant in this country.

Rather than ask the businessmen who directly benefit from the Kissinger proposals what they think of them we should ask the businessmen who do not do business in Central America for their views. In other words, ask the businessmen out in Kansas, out in California, who are not going to profit from the Kissinger plan; ask them how they like it. They are probably not going to like it at all, because they will be

able to see that this is just another program throwing money at problems, that is going to mean higher taxes for them.

I suspect that the right businessmen to ask, or at least if you want to get a businessman's point of view, ask those who are not on the handout line in Latin America.

Senator DODD. I did not limit it just to businessmen. I thought if you had any other contacts—Mr. Phillips, do you have any comment?

Mr. PHILLIPS. In terms of Latin America?

Senator DODD. Yes; just your contacts with people.

Mr. PHILLIPS. Well, one of the people with whom I am in periodic contact down there is Manuel Ayau, who is the founder and head of Francisco Marroquin University in Guatemala, and his view is that this entire approach is flawed, that instead of increasing the power of governments over the economy, steps should be taken to facilitate opportunities for growth in the private sector.

Another person with whom I spoke who is active in the area has suggested that we could accomplish more for the economy of El Salvador even in the context of the military pressures they are confronting if we caused them to disband the state monopoly and control of the coffee exports and sales.

I would also point out that the uncertainty over land, the confiscation of land, is something which has not contributed to the health of the economy in El Salvador.

Senator DODD. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much indeed, Senator Dodd.

Mr. LEIKEN, I would like to recall to mind something which you said 2 years ago in an article on foreign policy. The conclusion you came to was that the Soviet Union has quietly become a significant factor in Latin American affairs. The Soviets have moved cautiously in Latin America, but out of cunning, not out of restraint. Although Soviet probes in Latin America do not signify an independent threat to U.S. security, they are more serious precisely because they are components of and subordinate to the U.S.S.R.'s global strategy.

I would presume that the last 2 years have somewhat reinforced your feelings about what you said then. Is this still an accurate description of the Soviet activities in the region? If so, what means are the Soviets using to gain access, and what are the best ways to combat this encroachment?

Mr. LEIKEN. I think it remains basically accurate, but some things have changed. The Soviets pursue a global strategy but, as I suggested earlier, they have run into opposition on many fronts: National resistance movements in Afghanistan, in Kampuchea, in Eastern Europe, their own economic problems, their own problems of morale in the army, et cetera. We have been hearing a lot about all of that recently.

So I think within their global strategy they are now attempting to consolidate what they gained in the late 1970's. Thus it is important to look at global strategy when we look at Latin America.

One of the dangers of what seems to be the Kissinger recommendation and the Reagan policy is that we will divert so much political attention and military resources to the area that we will give the

Soviets a freer hand in areas which are more important for them strategically, such as the Indian Ocean basin and others.

But the Soviets do move cunningly and slowly, and have a long-term view in Latin America. That is why the recommendations, for instance, for scholarships for Central American students to come to the United States of the Kissinger report, are such good recommendations. That would be a useful thing, because I think the Soviets are counting more on future generations and the reactions of the current younger generation, the current youth, to U.S. activity in the region, to strengthen the Soviets in the long run.

The Reagan administration, as I suggested in that article you referred to, is in great danger of reacting out of panic to a perceived short-term threat, which I think they have exaggerated, and thereby creating a greater threat in the long term.

**THE CHAIRMAN.** Thank you very much.

Mr. Marks, you made a comment similar to an inference made by Mr. Phillips on our efforts in Vietnam, when you stated that the present level of aid and the commitment behind it is not sufficient for the United States to secure real change in the region and genuinely support those sectors which deserve our consistent attention.

One of the most frequently expressed concerns is that no amount of money will change the habits of Central Americans. Can you state with any degree of confidence that a U.S.-administered program of assistance can bring about change in Central America in the next 5 years? What kind of commitment of money and personnel would that actually require from us?

Mr. MARKS. Senator Percy, I think a beginning could be made in 5 years. I do not think that problem is soluble within 5 years.

I think there are several mechanisms suggested by the Commission which would be useful to the effort. But I would first like to point out that there are enormous differences among the actors in the five countries of Central America, that they are not equally conservative, they are not equally oligarchic. There are enormous differences.

It seems to me that pressures to oblige them to work together, for example in the Common Market of Central America, would allow you over time to work off the worst edges of the problem. And time is required, which means money is required.

If the Central American Common Market were reinvigorated and if CADO were in fact an implement of this legislation, where you would have the active participation of groups which had not been involved before in the distribution of financing, you would have labor representation, both United States and Central American, which I think is vitally important.

I have spent much of my life working around Latin America in one way or another and I realize the activity of democratic labor unions is vital to this process. They have not been sufficiently influential in Central America before. CADO offers an opportunity for them to be effective.

So I would suggest that those two instrumentalities CADO and the revitalization of the Central American Common Market over time, would allow practices to be changed in Central America. In fact, I would suggest to you that during the period when the Central Ameri-

can Common Market was operating, well before the soccer war between Salvador and Honduras, that was occurring in fact.

Practices at the commercial level were very different from what they had been immediately following the Second World War. It is a great shame that that process was interrupted. I would have great confidence in the eventual success of that process, and I think several Commission recommendations do facilitate the process.

**Mr. LEIKEN.** Could I add something on that?

**The CHAIRMAN.** Surely.

**Mr. LEIKEN.** It is noteworthy that the Common Market was interrupted by a war between Honduras and Salvador. This again underlines the problem of attempting to revitalize the Central American economy when we have, now, obviously a much more severe war situation, whether between Honduras and Nicaragua or within Salvador and the threat of the regionalization of the war.

This is why some of us have emphasized that a political settlement is what is needed in order to revive the Common Market and to bring development and growth to the area.

**The CHAIRMAN.** Beginning with Ambassador Moss, and I would appreciate a comment from any of you—we will keep the record open in case any of you want to expand it. We can just have a very brief comment today. But I would like to go back to the conclusion reached in the Miami report, which calls for issuing a firm, comprehensive policy to deal with Soviet forces in Cuba and the Soviet-Cuban involvement in Latin America.

How would you foresee such a policy developing and what would it encompass? How would one avoid such a policy becoming just a new baseline over which the Cubans and Soviets would seek to step? How would such a policy differ from present policy as established in the aftermath of the Cuban missile crisis?

**Ambassador Moss.** First of all, Mr. Chairman, one of the accompanying recommendations in the Miami report was that, despite our intentions in the aftermath of the Cuban missile crisis, we should not now consider that we ratified the tenure of Mr. Castro in Cuba. We should not treat him any differently in our human rights program than we treat the normal run of the mill human rights violator, especially considering the other things he does which threaten U.S. interests, such as use of his island as a forward advance base of Soviet military power.

The comprehensive strategy in the minds of the formulators of the Miami report had to do principally with preventing the introduction of Soviet offensive forces or Cuban forces anywhere else in the Caribbean or in Central America. This would have a component of dealing directly with the Kremlin and with Mr. Castro on that subject.

Second, it would have to do, I think, with keeping the door open for any eventual negotiations when it is clearly in the U.S. interest to negotiate with Castro. But the big issues such as the enhancement of diplomatic relations with Cuba or a lifting of the embargo, would only be possible if Castro made truly major concessions on the various fundamental points that bother us about Cuba: Soviet troops in Africa, Soviet military power in Cuba, subversion in the Western Hemisphere, and the maintenance of a totalitarian regime, which violates our human rights precepts.

**The CHAIRMAN.** Maybe we could go just from left to right, or maybe it would be more appropriate for me to say from your right to your left. Mr. Phillips.

**Mr. PHILLIPS.** Mr. Chairman, let me just briefly say, as the Kissinger Commission report itself asserted, sound foreign policy benefits from public understanding and popular support. Certainly, when the American people came to understand the nature of the problem in Grenada there was extensive support for President Reagan's rescue mission in that country.

Similarly, I think this committee would be performing an enormous service if it documented and made clear to the American people the full extent of the degree to which the Soviet Union and Cuba have departed from the assumptions of behavior that were incorporated in the Kennedy-Khrushchev accords of 1962.

If the American people understood year by year, step by step, the degree to which Cuba has become a basing point for the potential disruption of commerce in the Gulf of Mexico and the Caribbean, the degree to which the Soviet presence in this hemisphere, at sea, and in the air, can prevent us from being a serious ally to our partners in NATO, if they realize the degree to which even Fidel Castro, with nuclear-capable MIG's and nuclear submarines operating from his island, is in a position to threaten the lives of millions of Americans, then the American people would be ready to stand behind the kind of strong action which I think is absolutely essential to eliminate that Soviet military dictatorship from Cuba and prepare the way for the revitalization of the entire region.

**The CHAIRMAN.** Thank you, Mr. Phillips.

**Mr. Marks.**

**Mr. MARKS.** Senator Percy, it would seem to me that the best policy for us to pursue with regard to Cuba is one essentially of containment. It seems to me it is not appropriate at the moment to consider the possibility of large-scale or any scale military action; that our containment has to be accomplished through both economic and political means, so that eventually it becomes perfectly clear that Cuba is not valuable to anyone as a base for economic interruption or for insurrection advancement in the hemisphere.

**Mr. LEIKEN.** A key has to be the situation described in the Atlantic Council report, of which, along with Richard, I too was a member, as to the increasing self-determination and independence of the region. We have to understand, those countries do not want to be dominated by the United States, still less by the Soviet Union.

What need to be encouraged is their own anti-interventionist or non-interventionist sentiments. Contadora represents that. The Contadora proposals have been very clear on that point. That is a very important starting point.

Another thing for us to be clear about is the relationship between the Soviet Union and the left in Central America and in Latin America as a whole. We are aware that, obviously, there are leftist governments in the world who are not friendly to the Soviet Union—the People's Republic of China being the most conspicuous example, but there are others, such as Yugoslavia, who have opposed Soviet expansionism.

Within the left in Central America, there are important currents which are either anti-Soviet or simply nationalist. That is particularly

true in El Salvador, but it is also true in other parts of Central America.

By throwing them all into the same bag and saying they are all our enemies, we actually help the Soviet Union. The left is going to be a reality in Central America and in Latin America, probably a growing reality.

With respect to Cuba, I said in the article that you cited that we should lay neither a friendly nor a hostile hand on Cuba, a couple of years ago. However, in the last year or two I think there have been some interesting openings in Cuba.

For instance, they have been encouraging a kind of social democratic tendency in the Caribbean. They supported Bishop and were very unhappy with Bishop's overthrow in Grenada. The Soviets, on the other hand, appeared to be not unhappy about that and were just as pleased with Coard.

There have been differences between the Soviet Union and Cuba in the Caribbean, and we should explore those. We have nothing to lose by exploring Cuban overtures toward some kind of negotiation. If they do not prove to be forthcoming, well then, we will have to consider going back, basically, to a containment policy.

But I think we should move to test those openings.

The CHAIRMAN. I will need to adjourn at 1 o'clock and I presume you will want to get out, too. So if we could make our statements brief on this. I have just a couple more questions.

Mr. FEINBERG. Fine; I would like to partly echo some of the Atlantic Council points on this. One, we should not downgrade existing arms control and arms limitations agreements. The three accords we have with the Soviet Union limiting Soviet military offensive capabilities on Cuba have in fact effectively served U.S. interests and we should continue to monitor those, as well as to continue to make clear to the Soviets that we do oppose any further establishment of any Soviet bases in the region.

I think in general, though, that there will be other radical states and governments that will arise in the region, and we need a strategy that simply goes beyond saying that we need to eliminate them. I think one thing we should do is to try to keep them integrated into the international economy. To that extent, U.S. fiscal policy, interest rates, openness to trade, are just as important a part of an anti-Soviet strategy as weapons shipments.

To the extent that we can reduce disputes in a region, between countries particularly, that lessens the likelihood that a government will become heavily dependent upon the Cubans or the Soviets. So peace-keeping is extremely an important part of any anti-Soviet policy, and there Contadora plays an obvious role, working with other regional powers who, although they may reduce direct U.S. power—Mexico and Venezuela, after all, are playing a game that will reduce American power in the region if Contadora succeeds. I would argue we should accept that as being far preferable to an increase in Soviet and Cuban influence.

Just finally, I would say that I do think that there are probably important potential differences between Cuban and Soviet objectives in Central America. It is a major mistake to just see them as a single bloc unit. We have had good strong indications that the Cubans are

more willing and interested in a settlement in the area which would essentially consolidate the Sandinista government.

My sense is that the Soviet objectives, although no one knows for sure, are probably different, and the Kissinger report it seems to me agrees with such an assessment. The Soviet objectives are to keep the pot boiling, basically, and to draw the United States in, cause us to divert our resources, create conflict.

An American invasion of Nicaragua would be the optimal outcome from the point of view of the Soviet Union. I think Cuba has a different attitude, and we should seek to increase differences.

Thank you.

The CHAIRMAN. Mr. Krauss?

Mr. KRAUSS. I would like to make one or two brief comments. I agree that the best way to confront the Soviets and the Cubans in Central America is to create popular support for our efforts, for U.S. efforts in the area.

There are two simple ways to do that: One, I think it is critical to establish free trade with the Central American countries. That free trade move should be unilateral and not contingent upon, for example, the Central Americans undertaking a Common Market.

In other words, independent of what the Central American countries would be doing, we should go to free trade. That would be of great help to the countries of that area. It would be of great help to the people of those areas, the poor people as well as the elites.

Second, we should be seen as not to support corruption, we should be seen as not trying to buy elites and buy friends in the area. Therefore, I must reiterate my position that this foreign economic aid proposal of the Kissinger Commission, \$8 billion, will be seen, and rightfully so, as just another attempt of the United States to buy friends in the area.

We will get terrific resentment on the part of people who may even benefit economically from these programs. So therefore, I would advise this council to resist and not to support the foreign economic aid provisions of the Kissinger report. I think it will do us a lot of harm.

The CHAIRMAN. Thank you.

I would like to just run down the line and put one question to you, just in retrospect, because of the amount of time we have spent on it. Some of us went down and spent a good deal of time in Panama on the issue of ratification of the Panama Canal Treaty.

Today, would you vote for ratification of that treaty, and if so would you feel, or if not would you feel, more strongly in the unfolding of events that have transpired since that particular vote occurred 7 years ago?

Mr. KRAUSS. I would have to pass on that. I do not feel competent to answer you.

Mr. FEINBERG. I think it is not by chance that Panama is now one of the more tranquil and friendly governments and countries in the region. I think that is largely a result of our signing and ratifying the Canal Treaties.

Mr. LEIKEN. I think it is one of the best things we have ever done in Latin America. It is completely harmonious with the view that we should be supporting independent countries, even when they differ with us.

**Mr. MARKS.** Our organization, Senator Percy, strongly supported the Canal Treaty at the time it was a public issue. I am more firmly now than then convinced that we should have done it. I am very happy that we did and certainly would vote for it now.

**Ambassador Moss.** Mr. Chairman, I should certainly pass as an interested party. You will remember the days when I used to be up here lobbying you.

However, I would echo Mr. Feinberg and others and say look at the record of how the canal worked immediately after the treaties came into effect. Even apart from the political results, during the first 3 fiscal years after entering into force of the Canal Treaty, the canal actually set new records each succeeding year in terms of tonnage and in terms of ship transits.

Obviously, there had to be an increase in traffic for that to happen. But basically, it showed, with the same people and the same equipment, but an improved political atmosphere, the canal was able to increase its throughput of ships per day and to function exceedingly well.

**Mr. PHILLIPS.** Senator, the ratification of the Panama Canal Treaties was a tragic mistake, which signaled to the entire region a degree of American weakness, which paved the way for the fall of Nicaragua in 1979, a year after the treaties were ratified, to a Soviet-proxy government.

If you look at the Kissinger Commission report, it will point out that since those treaties were ratified there has been a significant economic decline in the region overall.

I would like to make one last point and take advantage of the last word—

**The CHAIRMAN.** But I have one other question, too. [Laughter.]

**Mr. PHILLIPS.** On conditionality, let me just say that I think it would be a tragedy if the United States held the democratically elected government of El Salvador to a higher standard than that to which we hold the totalitarian governments in Red China and the Soviet Union, with which we have recently entered into—

**The CHAIRMAN.** There is a difference, is there not? We are not offering them any kind of aid.

**Mr. PHILLIPS.** I would say we are giving them a great deal of aid with regard to technology transfers. With respect to Red China, that has happened recently. The grain sales are a form of aid.

**The CHAIRMAN.** Baloney. Have you ever been in business?

**Mr. PHILLIPS.** Senator, what about credit arrangements to the Soviet bloc?

**The CHAIRMAN.** Have you ever been in business?

**Mr. PHILLIPS.** Yes, sir.

Credit arrangements which prop up the Soviet proxy government in Poland also work to the advantage of the Soviet Union, and I would say that government has a human rights standard in Poland much less satisfactory than the one in El Salvador.

**The CHAIRMAN.** I would like to ask you about the IMF, whether or not you feel that the President was right in asking for replenishment, in view of your perspective on Central America particularly.

**Mr. KRAUSS.** I must admit, Senator Percy, that I have been very dubious about President Reagan's approach to the debt problem in the

Third World in general and Central America in particular. I just feel that this is a program which is geared to preserving the status quo. It is going to hurt us more than help us. And of course, for me to explain my reasons it would take an economic lecture of 20 or 30 minutes, which I will refrain from doing at this time.

The CHAIRMAN. Thank you.

Mr. FEINBERG. I was a supporter of the enlargement of the IMF quotas. Central America directly benefits insofar as several countries in Central America have or will have IMF standbys.

I would go further and say that the strengthening of the IMF could over the long term be a major vehicle for U.S. economic policy in Central America. To the extent to which we really have a multilateral program, the IMF can play an important role.

I worry that a purely bilateral program could actually undercut the IMF, because if we feel, as perhaps may be the case in El Salvador today, that our security interests are such that we must give them aid no matter how effective their economic policies are, governments can avoid going to the IMF and rely directly on us. A bilateral security orientation sometimes will produce a result which will in the long term actually undercut the economic viability of a country.

Mr. LEIKEN. I would agree with Dr. Feinberg's comments about the importance of multilaterality, and also again suggest that, with respect to the major industrial countries of Latin America, the IMF has an important role to play. I would certainly support the enlargement of the quotas.

Mr. MARKS. I certainly would also support it. I would say, though, that multilateral assistance of the type offered through the IMF and other world and regional bodies is not sufficient by itself. I think that bilateral aid also serves a clear purpose.

It seems to me that the IMF is beneficial to the United States; in enlarging the quota, adding to it, that we are serving our own interests in allowing the growth of trade, which means for us more business and more jobs.

Ambassador Moss. Mr. Chairman, I think it was absolutely vital to support the IMF replenishment, possibly to avoid a financial mega-disaster. Equally important with the money in that legislation, however, are the various exhortations to try to seek to refinance and reschedule loans in such a way that terms of the loans are stretched out, interest rates are lowered, and the countries involved are given more breathing space.

I realize that only a limited amount of effect could be given in that particular legislation, but I think that is equally important along with keeping the IMF afloat.

Mr. PHILLIPS. Senator, I think you know where I stand. I believe it is inappropriate to tax the earnings of the American people to subsidize the unwise investments of major banks.

The CHAIRMAN. I would like to just get a comment from possibly Ambassador Moss on the question of the scholarships that you have alluded to, I believe, Mr. Phillips. As I understand it, our level of scholarships are at about 189 in Central America and the Soviet Union about 11,000. The Commission has recommended that we substantially increase our level to 10,000.

How do you see the cost effectiveness of that kind of program? What kind of impact are they having with 11,000 scholarships versus our 189?

**Ambassador Moss.** I think the program of the Soviets is very effective. They are investing in the youth of the Caribbean Basin, and the best and brightest of underprivileged youth go to places like Lumumba and come back doctors and engineers, often ending up in government ministries and labor unions. They will be in a position to do the United States, the private sector, and those local governments a tremendous amount of harm through the years.

It is a long-term investment that they are making. What we should do about it is something I have been reporting back in cables for many years, reporting on the problem and urging something be done. I think that it ought to be a cooperative venture.

It should not be just a U.S. Federal Government program, but there ought to be substantial, very substantial private sector involvement on the part of those banks and multinationals that have a stake in their own future in that part of the world, and for that matter a participation by local private sectors in the affected countries. They must act, in effect, to help cure their own problem.

If that were done, and with the cooperation of U.S. universities and colleges, many of which now have excess capacity and would be very willing, as we found in south Florida with the University of Miami and with Barry University, to provide tuition waivers and other benefits, we could have a solid cooperative program going.

I came up yesterday with a draft that was just handed to me as I left Miami from the president of the University of Miami commenting on the 10,000 scholarship program as recommended and suggesting ways in which—including in a budgetary sense, this might be effected with public and private funds. If you are interested, Mr. Chairman, I will leave that memorandum with you so that the committee can have a look at it as a possible way in which it could be carried out.<sup>1</sup>

**Mr. KRAUSS.** Senator Percy, as perhaps the only practicing academic on the board, I would like to make a statement about the very subject. I am very much against this, as a professor of economics at a major university. First of all, there is just not the talent out there to warrant 10,000 scholarships. You cannot find 10,000 Central Americans who are worthy, academically worthy of these scholarships to begin with. Where are we going to get the people?

Let us assume we can get 10,000 people somehow. They may not be worthy, but we bring them here. I wonder if that is going to be a very effective thing. For example, how well are they going to do in major universities? Will they have to be treated specially? Will we have to have special programs for them?

To what extent will this create anti-Americanism? These very people who came over here as strangers, they are subsidized, they know they are being treated specially. Most people at the university are there because they are academically qualified and they are willing and able to pay the money to get in. These people will know that they are being specially treated.

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<sup>1</sup> See page 412.

I just feel that it is going to be a counterproductive program and we should be very skeptical about it. I speak not as an economist so much, but as a professor.

Mr. PHILLIPS. Senator, I approach it from a different perspective. I am sure there are at least 10,000 Central American young people who are indeed worthy and many more who would benefit from this.

On various occasions when I have had the opportunity to travel around the world or meet with people from other countries who have been educated behind the Soviet Union and in the United States, one ironic comment that is made is that those who are subjected to Marxist indoctrination tend to become anti-Communists and very often those who attend a great number of American universities become Marxists or at least socialists.

My concern, among other things, is—

The CHAIRMAN. Do you have any proportion as to whether that is a preponderance on either side or whether it is just some?

Mr. PHILLIPS. My comment is anecdotal. [Laughter.]

But I would make the point that education per se is not a virtue. The question is—of course, the Latin root is “educ”. Where do we lead them? And if we lead them in the right direction, if we lead them in the direction of the principles of liberty and sound, honest money economics, then it is worthwhile.

But especially if you are talking about the principles of liberty and sound economics, then that type of education should not be extracted from the pockets of working people in America who are struggling themselves to put their own children through college.

The CHAIRMAN. Thank you.

Mr. LEIKEN. In my academic practice in Mexico and Central America, let me say that I found a great number of very worthy students. I am sure it would be easy to find 10,000 Central American students who would be delighted to benefit and who would benefit from an American education, and who would not feel that there was a prejudice against them because they had been invited here.

But it is also important, and perhaps more important, to strengthen and develop Central America's own educational institutions.

The CHAIRMAN. Thank you.

[The following information was referred to on page 411.]

#### DRAFT PROSPECTUS FOR CARIBBEAN AND LATIN AMERICA STUDENT SCHOLARSHIP PROGRAM

(Submitted by: Edward T. Foote II, President, University of Miami, Coral Gables, Florida)

#### BACKGROUND

The U.S.S.R. and other communist countries use scholarships in Latin America to exert influence. The number of students on such scholarships has risen from 500 to approximately 7,500 in 10 years. (Reported by John R. Silber, a member of the National Bipartisan Commission on Central America—the Kissinger Commission, in the Miami Herald, Sunday, January 15, 1984.)

The Dominican Republic alone is estimated to be sending 2,500 students yearly to study in Moscow, Havana and other Communist capitals; Panama sends approximately 750.

Ecuador, Peru, Nicaragua, and Bolivia are sending many more.

The U.S.S.R. and Cuba educate almost 7,500 Central American students on scholarship. The United States provided fewer than 30 scholarships last year.

The Kissinger Commission report states, "We recommend a program of 10,000 Government-sponsored scholarships to bring Central America students to the United States."

As a result of recent economic crisis in Latin America and the Caribbean, and the relative strength of the U.S. dollar, fewer students from these countries are able to study in the United States. Furthermore, budget regulations have shrunk the U.S. Government Exchange Programs.

In recent months, realizing that curtailment of United States study grants would provide an opportunity for them, the Soviets and Cubans have quickened their activity to fill the resulting vacuum created. These rapidly expanding programs from Eastern bloc countries and their friends are clearly designed to influence the future leaders of Caribbean and Latin American countries.

This calculated attempt to win the minds and loyalties of tomorrow's leaders in Central and Latin America is a ticking time bomb of grave danger to the free world.

The Kissinger Commission suggests that, "The United States should provide 5,000 four to six-year university scholarships and 5,000 two to four-year vocational scholarships."

#### PROPOSED

The University of Miami, a global university with a long history of Caribbean and Latin American involvement, proposes a two-phase foreign student scholarship program that would give students from Caribbean and Latin American countries the opportunity to study in the United States.

The University of Miami would:

- (1) Coordinate a pilot program for five hundred students who would study on scholarship in the United States beginning next fall;
- (2) Help in creating and coordinating a national program for 10,000 students.

#### MAIN ELEMENTS

(1) The University of Miami would coordinate a national network of participating institutions of higher education through a student scholarship program. Additionally, the University of Miami would establish linkage and coordination with other organizations presently providing or interested in providing services to Caribbean and Latin American students. Such groups would include:

(a) The American Council on Education, which would publicize the program to the 3,300 plus member universities and colleges in the United States.

(b) U.S. Chamber of Commerce in Washington, which would institute a scholarship program among all of their chapters. Monies collected would provide for annual room and board for selected students.

(c) American Chambers of Commerce in Latin America, which would institute the same type of program as the U.S. Chambers.

(d) Eastern Airlines, which would offer discounted (or in special cases, free) transportation to and from the United States, and by example encourage foreign flag and other domestic carriers in Latin America to join in this endeavor.

(2) The University of Miami would establish a pilot program for 500 students from Latin America and the Caribbean which would include the following:<sup>1</sup>

(a) Scholarships would be directed toward the accommodation of outstanding but needy students.

(b) The scholarship awards would require that students agree to return and spend a minimum of two years working in their countries.

(c) Students would take an intensive English language course until proficiency is gained, before they advance to a regular course of study.

(d) Students would be encouraged to live with American families and would be helped with the arrangements. This would assist them to understand American culture.

#### TARGET GROUP

The initial target group for the scholarships should be high school graduates and first year undergraduates, the same group now so heavily courted by the communists. The point would not be to proselytize. To the contrary, political proselyt-

<sup>1</sup> The University of Miami has traditionally included international students among those on academic scholarships. There are currently Latin American students on campus as Armando de Armas Scholars, General Electric Scholars from Mexico and Venezuela, and Dominican students sponsored by the University of Miami/Greater Miami Chamber of Commerce/Fundacion de Credito Educativo under the Investing in the Youth of the Caribbean Scholarship Program.

izing is the anthesis of higher education in a free society. The point would be to offer educational alternatives in the United States for bright students who would study here and make up their own minds.

Support for this proposed program has already been received, as follows:

(1) Initial contacts with the United States Ambassadors in Chile, Argentina, Peru, Bolivia, and Paraguay.

(2) The Hemispheric Congress of Latin Chambers of Commerce and Industry passed a resolution at their annual convention in Miami, committing support of this project.

(3) Campbell-Ewall (Eastern's advertising agency) has committed to supply free advertising and public relations support.

(4) Other institutions of higher education have indicated a desire to participate in a program of this nature.

#### PROCEDURES

(1) Establish a permanent office for national coordination of Caribbean and Latin American students' scholarships on or near the University of Miami campus.

(2) Coordinate foreign scholarship activities with the Agency for International Development (AID) and the U.S. Information Agency (USIA).

(3) Develop procedures for a scholarship award program between the Caribbean and Latin America, and participating institutions of higher education in the United States.

(4) Develop procedures for eliciting the participation of institutions of higher education nationally.

(5) Develop entry point procedures for the University of Miami and other participating institutions. This would include provisions for intensive English language training and transition programs for acculturation.

(6) Bring together the interested and appropriate organizations and agencies to form a permanent educational infrastructure for this program. This would include such organizations as the Institute for International Education (IIE) and the Latin American Scholarship Program of American Universities (LASPAU).

(7) Build a national advisory committee including representatives of governments, foundations, business and the academic communities.

(8) Develop a planning strategy which would allow for implementation of the pilot program by August 1, 1984, and the larger program as soon thereafter as possible.

The CHAIRMAN. I will submit for the record a couple of inserts from Senator Helms. He regrets that he was unable to be here today because of an agricultural matter that he was presenting to the budget board. Also, he has a number of questions for a few of you. I will submit those articles for the record at this point.

[The articles referred to follow:]

[From the Wall Street Journal, Feb. 4, 1981]

#### LATIN AMERICA: INFLATION SHAKES WELFARE STATES

By Melvyn B. Krauss

The Carter administration believed that political violence and military dictatorships in the Third World are caused by extremes of wealth and poverty. Reducing inequalities of income and wealth distribution, therefore, became the cornerstone of U.S. policies toward the Third World in recent years. El Salvador is a case in point. The Carter response to a Cuban-based takeover threat there has been to sponsor a regime that nationalized the banks and promised agrarian reform, a strategy that seems to have enraged both the extreme left and the extreme right.

Difficult as it is to comment from afar on the course of events in Latin America, one may nonetheless assert that the real weakness of Carter's failed policy toward El Salvador and other Third World countries may not be that it pleases only U.S. liberals. Rather there is growing evidence that Carter's policy would not work even where both left and right in the affected country agree that a move toward greater economic equality is warranted. Several Third World countries have embraced the welfare state to combat extremes of wealth and poverty. But instead of promoting prosperity and social stability as predicted, the welfare state resulted in economic chaos, political violence and military dictatorships.

Costa Rica is a recent example. The New York Times reported in December that ". . . Costa Rica's problems are the result of a welfare state that has brought considerable social justice and economic equality yet for years has spent more than it has earned, consumed more than it produced and, finally, borrowed more than it could afford. . . . Perhaps the greatest symptom of the crisis is that, in a country that has known eight successive peaceful transfers of power and has long boasted of its democratic tradition, there is suddenly open discussion of the possibility of a coup to install a government capable of dealing with the threat posed by the economy."

Costa Rica's real income has been substantially lowered because of the adverse movement in its terms of trade. If most economic decisions in Costa Rica's economy were private, the decline of real income would be "adjusted" by a decline in real expenditure. Costa Rica would be poorer; but there would be no need for a political crisis since the source of Costa Rica's problems—changes of commodity prices on world markets—are outside of Costa Rican control. Besides, things could soon get better. Sharp cyclical variations in the terms of trade are part of the normal economic environment for small one-crop economies.

But Costa Rica's welfare state made it impossible for Costa Rica to adjust to its reduced real income. The problem is that the decision to reduce welfare expenditure is a political one, which by its nature involves broken promises by the government to its citizens. When private individuals cut back because of reduced real incomes there is only private regret to contend with. But when the government has to suspend free medical services, reduce or eliminate pensions and so forth, citizens feel betrayed by their government.

Faced with the choice of cutting back on welfare expenditure or trying to maintain it in the face of declining real income by printing money, a government may well choose what appears to be the easy way out. The result: rapid inflation, devaluation of the currency and loss of access to foreign capital markets. This is the present situation in Costa Rica. People there are talking of a coup d'état simply because the directive power of an authoritarian regime eventually comes to be seen as the only way the economy can be made to adjust to changed circumstances.

The Costa Rican case resembles that of Uruguay. Current history reports the situation in Uruguay immediately preceding the military takeover in 1973: "After decades of inflation, feather-bedding and living beyond the nation's means, the very foundations of Uruguay's national life seem to be breaking up." This is what social justice and economic equality brought to Uruguay. And here are some of the reasons:

Similar to the situation in Costa Rica, the inability of Uruguay's government to reduce welfare expenditure during times of depressed world prices for its leading export—meat—led to hyperinflation. The terms of trade turned against Uruguay during the 1960s. The fall of its currency ratio from 11 pesos-to-1 dollar in 1960 to 100-to-1 in 1967 and 250-to-1 in 1968 reflected an inflation that resulted from government financing of inordinately high levels of welfare expenditure through money creation.

Unlike the Carter administration, El Salvador's President, Jose Napoleon Duarte, appears to have learned the lesson of Costa Rica and Uruguay. He argues, "There is too little land and too many people. . . . We need to become more like Taiwan, importing labor-intensive industries." This means that El Salvador should avoid the agrarian-reform wealth-redistribution muddle favored by the Carter administration and instead use the free market to spur economic growth. The Reagan administration's policy should be to help El Salvador become the Taiwan of Central America.

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[From the Wall Street Journal, Dec. 23, 1981]

#### SUPPLY-SIDE POLICIES BENEFIT THE THIRD WORLD'S POOR

By Melvyn B. Krauss

Just because a high priest falls from grace does not mean that God is dead. By equating supply-side with trickle-down economics, David Stockman apparently believes the former to be a masquerade to help the wealthy, from which the poor

receive little benefit (a "trickle" does not sound like much). But there is a great deal of evidence to suggest that in countries following supply-side policies, the poor do benefit substantially from them—indeed more than when the stated objective of government policy is to promote their cause and incomes.

Much of this evidence comes from the Third World. One of the more important implications of the Laffer curve for Third World countries is that a given level of tax revenues is consistent with two different rate levels—a low tax rate and a high one. In a dynamic context, this implies two strikingly different approaches to government finance. Either public expenditure can be financed out of economic growth with low tax rates, or it can be financed by high tax rates on a stagnant economic base.

It is apparent that for the poor in particular the low tax rate-high growth alternative is preferable to high tax rates. Singapore is an example of a low-tax rate, capitalist-oriented economy. Its top marginal rate on personal income is 45 percent at \$185,185 according to Price Waterhouse; investment income is minimally taxed. India is a high-tax-rate, socialist-oriented economy. Its top marginal rate is 60 percent at \$12,000; investment income is severely taxed.

The World Bank reports that from 1960 to 1977 the average annual increase of *public consumption* in Singapore was 9.8 percent, more than twice that of Sweden (public consumption includes public education, hospitals and health plus public housing—10 percent of Singapore's population lives in public housing). In India, during this same period, the comparable figure was *negative* 0.67 percent. The reason for this disparity in performance was economic growth. Per-capita gross national production increased at an average annual rate of 1.3 percent in India between 1960 and 1977. In Singapore the increase was 8.7 percent.

All of the low-tax, high-growth economies in the Pacific Rim had impressive public consumption growth from 1960 to 1977. After Singapore at an average per year increase of 9.8 percent come Hong Kong at 8.6 percent (Hong Kong is the low-tax champion of the Third World with a top marginal rate of 15 percent at \$20,000), Korea at 6.9 percent and Taiwan at 4.5 percent. These figures indicate that the benefits from low-tax, high-growth policies do more than trickle down to the poor—they gush down upon them. High tax rates, on the other hand, yield the poor little public consumption benefit.

In Africa there is an illustrative case of two neighbors—Ghana and the Ivory Coast. Ghana is a socialist, high-tax-rate country; its top marginal rate is 75 percent at \$12,522; Ivory Coast is a capitalist, low-tax-rate country, whose top marginal rate is 37.5 percent at \$20,922.

The results of these two different approaches to development have been dramatic. The Ivory Coast has prospered; the average annual growth rate of gross domestic product was 8 percent during the 1960s and 6.5 percent from 1970 to 1979. Ghana, on the other hand, has fallen dreadfully behind. The average annual growth rate there was only 2.1 percent during the 1960s and from 1970 to 1977 it fell to a paltry 0.4 percent.

As a result of these growth disparities, the Ivory Coast was much better able to look to the social needs of its people than Ghana. During the 1960s, public consumption in the Ivory Coast rose at an average annual rate of 11.8 percent, while in Ghana the comparable figure was 6.1 percent. From 1970 to 1977, the figures were 8.6 percent for the Ivory Coast and negative 1.5 percent for Ghana.

Of course, public consumption is not the only means by which supply-side growth policies help poor people. There is also the effect on private incomes.

Over the decade of the 1960s, Brazil achieved a high rate of economic growth by comparison with most other Third World countries. For the latter years of the 1960s and the first part of the 1970s, its growth rates approached 10 percent per year. On this basis the Brazilian case was widely acclaimed as an "economic miracle."

Who benefited from this miracle? The econometric analysis of Gary Fields in the American Economic Review concludes (1) that while every class in the income distribution benefited from growth, the percentage increase in personal income for those below the poverty line was greater than the increase for those not in poverty, and may well have been twice as high, or more; and (2) that the "poverty gap" in Brazil—the amount by which poor persons' incomes would have to be raised to bring them up to the poverty line—was reduced by 41 percent between 1960 and 1970. The evidence from Brazil, in other words, was that economic growth was very good for the private incomes of poor people.

Recent studies of Chilean economic growth confirm this result. After Allende, economic growth in Chile averaged 7.3 percent. Chilean economist Joaquin Lavin

Infante discovered that coincident with this growth there occurred a "significant decrease in the percentage of families whose income is below the poverty line, from 20 percent in 1973 to 13.6 percent in 1979." He also ascertained that the poverty gap was reduced by .79 percent, and that the families who continue to live in extreme poverty had an estimated increase in income of 48 percent between 1973 and 1979. Critics of the Pinochet regime have argued that the benefits of Chilean economic growth have gone primarily to the wealthy. The statistics do not bear this out.

In sum, it is probably true that supply-side economics has been oversold in the U.S. The cutbacks in public spending necessary to give growth a chance are far from painless. But once the growth momentum does get under way, experience has shown that the poor do benefit a great deal. David Stockman notwithstanding, the evidence is that supply-side is as much poor man's as rich man's economics.

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[From the Wall Street Journal, Mar. 16, 1982]

#### **MR. REAGAN'S FLAWED CARIBBEAN ECONOMIC POLICY**

By Melvyn B. Krauss

There seem to be two Ronald Reagans in the White House—Reagan the visionary economic philosopher and Reagan the politician. Reagan the economic philosopher understands that the creation of wealth—not its transfer—is the only way to help poor people. And that the best way to create wealth is through competitive capitalism and free enterprise. Reagan the politician sometimes falls into the "politics as usual" trap. Unhappily, from the look of the President's recently announced plans to improve the economic well-being of the Caribbean area, the poitician may have gotten the better of the philosopher this time.

The President's program has three main parts: increased economic aid of \$350 million for countries hit hard economically; tax incentives to spur U.S. private investment in the Caribbean; and trade concessions for Caribbean products exported to the U.S. (excepting textile and apparel products). The idea—sound in concept—is to crowd out communism by promoting the prosperity of the Caribbean.

Many might favor increased economic aid on the ground that the U.S. can better afford sending money than soldiers to the Caribbean. True enough. But the more important issue is identifying what will work. If increased economic aid had any chance of bringing prosperity to the area—the left-liberal position—we should have sent it long ago. But was it not President Reagan, addressing the recent 36th annual meeting of the World Bank and International Monetary Fund, who argued—convincingly—that "unless a nation puts its own financial and economic house in order by providing economic incentives and commercial opportunities, no amount of aid will produce progress"? With the notable exception of Jamaica, the Caribbean nations have not put their economic houses in order. Thus, by the President's own criteria, increased economic aid won't get the job done. By financing destructive economic policies in the recipient nations, foreign aid encourages those policies. This is the true "incentive effect" of foreign aid.

Costa Rica is an example where more foreign aid could retard rather than promote economic progress. The Costa Rican economy is coming apart not because its terms of trade (coffee for oil) have deteriorated—which indeed they have—but because its welfare-state policies prevent the scaling down of public welfare expenditure at a time when the country's real income has slowed dramatically. From 1975 to 1979, for example, social security and welfare payments increased at an average annual rate of 35 percent while economic growth rose at a 6 percent average annual rate.

But if we bail out the Costa Ricans, there is no incentive for them to put their economic house in order. Why is it the President understands this argument when it comes to federal government bailing out major U.S. cities like New York or Cleveland, but not Costa Rica and other Caribbean countries?

To understand why the tax incentives in the President's Caribbean package won't work, one must ask why sufficient private foreign investment doesn't come to the Caribbean in the first place. The answer is faulty Caribbean domestic policies. Protectionist taxes on international trade in 1978 accounted for 34 per-

cent of all tax revenue in Honduras, 37 percent in Guatemala and 50 percent in El Salvador. In El Salvador, the average annual increase of government expenditure for economic services from 1974 to 1980 was 44 percent while that for defense expenditure was only 17.6 percent.

If the Caribbean nations had intelligent small-government policies—for example, low tax rates, no protectionism, low inflation—tax incentives wouldn't be needed to spur U.S. private investment there. It would take place on its own.

To attract foreign investment, the Caribbean countries must get government out of their economies to make investment safer and more profitable. But policy changes of this sort won't be made if the countries receive the foreign investment anyway—because the U.S. subsidizes it.

The only way the Reagan administration can save its severely flawed Caribbean economic policy is to demand *reciprocity*. The foreign aid and the investment tax incentives can be offered, but only if the beneficiaries agree to reform their domestic policies in ways consistent with free enterprise and competitive capitalism. For example, the economic assistance rendered Costa Rica should be contingent upon severe cutbacks in Costa Rican public spending and tax rates. Its top marginal tax rate of 50 percent on personal income and 45 percent on corporate income—along with its social security tax, which accounts for 25 percent of public revenue—should be cut. At least this way the “magic of the marketplace” the President often invokes to justify his policies—even policies like this that undermine the market mechanism—will have a chance to work.

The best part of the Reagan program is free trade for Caribbean products exported to the U.S. for 12 years. Free trade may be the most effective way we can transfer prosperity to Third World countries. But here too one must have reservations.

Caribbean economies are labor abundant. Industrialization via the market will imply development of labor-intensive industries—such as textiles and apparel—the two items not included in the plan's trade concessions. President Reagan should stand up to U.S. textile and clothing interests and say no to protectionism, if only to show that the U.S. is serious about developing the Caribbean along free-market lines.

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[From the Wall Street Journal, Dec. 20, 1982]

#### FOREIGN AID AND THE 'GANG OF FOUR'

By Melvyn B. Krauss

The “Gang of Four”—Hong Kong, Singapore, Taiwan and South Korea—is frequently held out as an important success story for free-market economics. But in Taiwan and South Korea the identification of the free market with rapid rates of economic growth has been challenged on the ground that both performed their economic miracles with substantial U.S. aid. Foreign aid, it's argued, was the springboard for their rapid growth.

This argument is not only incorrect, but the reverse of what actually happened. In both Taiwan and South Korea, American economic aid financed and sustained wealth-destroying protectionist and anti-private-capital import policies. It wasn't until a threatened cutoff of foreign aid in the late 1950s that both countries were constrained to adopt the free-market, pro-foreign-capital import policies that proved responsible for their success. Rather than prepare the Taiwanese and South Korean economies for takeoff, foreign aid threatened to ground them permanently.

There were several motives for U.S. aid to Taiwan from 1950 to 1965. The least controversial was sustaining strong Nationalist military posture vis a vis Communist China. The resources provided by U.S. aid—particularly clothing and food—let the Nationalists make necessary military expenditures without creating hyper-inflation. Aid for this purpose is generally considered to have been quite successful.

By 1956, U.S. aid objectives gradually shifted from military strength to economic growth. Reflecting the conventional wisdom of that time, Taiwan's development strategy was to use government aid funds to build infrastructure (power, transport, communication); foster agriculture; and develop human resources, leaving industrial development to private enterprise. In other words, U.S. aid was intended to help create a booming private sector by making available increased power, transportation, efficient labor and low-priced raw materials.

From 1951 to 1965, two-thirds of all U.S. aid went to projects run by public enterprises and agencies. Some 37 percent of the aid in this period went for infrastructure; 26 percent went to human resources; 22 percent to agriculture and 15 percent to industry.

Though designed to benefit private enterprise, the effect of U.S.-financed investment in this "social overhead capital" was to damage it by drawing scarce resources away from private use. This crowding out of the private sector by the public projects increased the cost of resources to the private sector; it was as if an explicit tax had been placed on using these resources. For example, private-sector gross investment in fixed capital formation in Taiwan fell from 56 percent in 1954 to 41 percent in 1958. From 1951 to 1963, the public sector accounted for 48 percent of total Taiwanese net domestic investment; and U.S. capital assistance accounted for 80 percent of that figure. Rather than creating a model for capitalistic development, as intended, it became obvious by the last 1950s that government-to-government aid was creating a strong socialist state in Taiwan that was suffocating the private sector. This was one of the main reasons Washington chose to discontinue its aid to Taiwan.

The conventional wisdom that inspired the practice of letting the public sector crowd out the private sector in Taiwan is what one might call "cart-before-the-horse" economics. Social-overhead capital simply is not a horse that's going to pull along private business. Indeed the opposite is true. The lack of infrastructure may well be a bottleneck in economies already experiencing strong private-sector growth, in which case the rate of return from investing in infrastructure will probably be high. But in poor countries, as Taiwan and Korea were at the time, the absence of infrastructure is more a reflection of economic stagnation than a reason for it. The private sector must lead the public one—not the reverse.

Another purpose of U.S. aid to Taiwan and Korea during the 1950s was general economic assistance. Grants and concessional loans to finance perpetual balance-of-payments deficits and support the currency in foreign-exchange markets became an important factor in sustaining the protectionist policies of the Nationalists in Taiwan during the 1950s. These policies hurt Taiwanese industry in two ways.

First, they artificially restricted Taiwan's exports by drawing resources out of export industries into import substitutes. During the protectionist decade of the '50s, the average annual growth rate of Taiwanese exports was 15.5 percent; during the free market '60s, it was 31.5 percent. Second, protectionism helped create stagnation in Taiwanese manufacturing during the 1950s. The annual rates of output growth in the nonfood-manufacturing sectors of the Taiwanese economy were (in percentages) 22, 23, 19, 11, 10 and 10 respectively for the six years from 1953 through 1958. The drop in output growth was particularly severe in textiles, wood products and basic metals, all of which suffered from severe excess capacity.

In addition to economic stagnation, there were fears in Taiwan that U.S. aid had made the country too dependent on the U.S. Independence from foreigners had been a central motif of Nationalist Chinese international economic policy since Sun Yat-sen. The result, as in many third-world countries, was that Taiwan opted for protectionist policies in the early post-World War II period. An export-oriented, free capital-import program was rejected precisely because it was seen as surrendering Taiwan's future development to private firms and foreign interests who, it was thought, would be preoccupied with profit and unresponsive to the political and historic imperatives President Chiang Kai-shek had defined for his island country.

Autarkic economic policies, however, didn't bring independence. They brought the opposite. By running the economy into the ground, protectionism forced Taiwan to depend increasingly on the U.S. for general economic assistance. The Nationalist fear of dependence on private foreign firms thus led to the reality of "aid dependency" on the U.S. In the final analysis, the Nationalist government realized that only the prosperous are truly independent, and that Chiang's earlier fear of foreign capital had been misplaced if not counterproductive.

Like Taiwan, U.S. aid to South Korea in the early postwar period was linked to containing communism in the Pacific basin. A food shortage resulted in South Korea from the massive migration south upon the split of the two countries; the U.S. countered with free food and a half million tons of fertilizer. The fertilizer in particular is considered to have been instrumental in restoring agricultural production to its pre-World War II level by the outbreak of the Korean War. Later, however, surplus food imports were argued to be a prime factor causing stagnation in Korean agriculture because they kept food prices low.

After the Korean War, U.S. economic aid to South Korea was both more substantial and less successful. From 1953 to 1963, U.S. economic aid accounted for 13.4 percent of Korean GNP, 95.9 percent of Korean gross domestic investment and 75.6 percent of government expenditure. It is no exaggeration that it misguidedly financed a virtual socialism in South Korea during this period.

Foreign aid on a large scale is known to lead to corruption on a large scale. In the case of the Rhee regime in South Korea, aid-financed agriculture and industrial projects were used to prop up Rhee's political fortunes rather than the Korean economy. As a result, one-fifth of all such projects financed by U.S. aid from 1953 to 1963 proved unsound for reasons of bankruptcy and lack of managerial skills, according to economic studies. Korean per capita GNP grew at an annual average rate of 1.9 percent during this period, compared to figures three times that magnitude after aid and government in Korea were scaled down in the 1970s.

It's sometimes argued that U.S. aid was vital in stabilizing such societies because it signaled American willingness to stand firm against Communist aggression. This supposedly gave the Taiwanese and South Korean economies their attractiveness to private investment. In fact, however, foreign and domestic private investment didn't take off until the governments changed their policy orientation from government-led growth and reliance on foreign aid to more emphasis on private sector growth.

In short, so long as generous U.S. aid was forthcoming, Taiwan and South Korea could forgo private-capital import and export promotion for foreign exchange purposes. But when the aid was discontinued, the generation of foreign exchange by the private sector became critical. It was not mere coincidence that both countries radically altered their domestic economic policies from import substitution to export-led growth in the face of the U.S. aid cutoff; it was cause and effect.

Taiwan and South Korea are interesting for many reasons. Not the least to demonstrate the harm foreign aid can do in promoting wealth-destroying economic policies.

[From the Wall Street Journal, Dec. 9, 1983]

#### WHEN CONSERVATIVES BOOST FOREIGN AID

By Melvyn B. Krauss

Last spring, Secretary of State George P. Shultz created a commission, headed by former CIA and Defense Department official Frank C. Carlucci, to review U.S. foreign-aid programs. Its recently issued report calls for a major reorganization of the country's foreign-aid apparatus. Instead of separate agencies to administer economic and military aid, the two functions would be merged into a single new agency under the secretary of state, tentatively called the Mutual Development and Security Administration. The report claims that the creation of the foreign-aid superagency would increase bureaucratic efficiency and reduce the confusion that currently obtains under the more decentralized apparatus.

But the real motive behind the Carlucci commission's recommendation has less to do with administrative efficiency than with loosening Uncle Sam's purse strings. Significant increases in foreign aid—both economic and military—are what the Carlucci Report is all about.

There are, of course, dramatically different constituencies for economic and military aid today in Congress and the public. Conservatives tend to be against economic aid, but favor military assistance to bolster friendly regimes. Liberals' preferences are the opposite. Under current institutional arrangements, each group often has been able to block the other's programs. The result—not an unhappy one for U.S. taxpayers, but frustrating to big spenders—has been a stalemate that has kept both camps in reasonable check.

The Carlucci Report proposes logrolling to break this stalemate. The prime motive behind the foreign-aid superagency appears to be framing aid legislation that will be generous enough to both sides that neither conservatives nor liberals dare oppose it.

Though its purpose is to increase U.S. foreign aid substantially, the Carlucci Report is not an American Brandt Report. For one thing, its rhetoric is more in line with Reaganomics than the social democratic documents. Missing are the gratuitous attacks on multinational corporations, private markets, capitalists and other left-wing scapegoats. Increased foreign aid is not justified, as it was

in Brandt, because of the alleged failure of competitive capitalism to increase Third World living standards. Rather, like Mr. Reagan's IMF bailout, the aid is justified as a means to promote the privatization of recipient economies and economic growth by making it contingent upon the proper undertaking of reforms."

We should not be fooled by this type of double-think. There is only one way to privatize the economy, and that is to reduce the role that government plays in it. Shrink government and the economy automatically is privatized. Foreign economic aid, because it represents government-to-government transfers, socializes recipient economies. No amount of rhetoric can change this.

"Economic growth and rising standards of living are vital to internal stability and external defense," observes the Carlucci Report. "Threats to stability impede economic development and prosperity." There is little offense given by this statement, except as a defense for the Carlucci recommendation that economic and military assistance be closely integrated.

Few would deny that national security and economic growth are intimately related. National security is an indispensable condition for economic growth. And, for poor countries at least, national security without economic growth is not likely to produce the political stability that motivates such growth. U.S. military assistance to countries like El Salvador, for example, is likely to be a waste of money unless it sets the stage for a regime of acceptable economic growth that reaches the poor.

Where the Carlucci Report errs, however, is in its argument that the close link between national security and economic growth necessitates a similar link between military and economic assistance. The reason is that while arms aid, when not abused by recipient governments, can increase the national security, economic aid does not produce economic growth. In fact, it produces the opposite, not only by increasing the scale of government policies, but by discouraging beneficial changes in them.

Third World countries find themselves in economic difficulty primarily because of bad economic policies. Mexico, for example, is in trouble today not because of big budget deficits—the IMF view—but because it wasted its oil money on large-scale capital-intensive industries, such as steel and petrochemicals, that could never hope to be competitive on world markets. Brazil borrowed heavily to finance white elephant infrastructure projects and nationalized industries that are as inefficient as they are omnipresent. The loans that financed these bad policies, though primarily from the private sector, were encouraged as substitutes for foreign aid by governments in the industrialized countries. And explicit economic aid to help finance the service and repayment of the debt only serves to encourage governments in recipient countries to continue the bad policies that once in place are politically painful to reverse.

While conservatives, by and large, accept these arguments, it is dismaying how many sympathize, nonetheless, with the traditional State Department view that if we fail to give economic aid to Third World governments not hostile to the U.S., they will be replaced by hostile ones. In other words, that economic aid is necessary to save the Third World from communism.

This argument of the so-called realists is wrongheaded on several levels. First, just as throwing money at domestic problems does not solve them, neither does throwing money at foreign ones. All that entering into a bargaining war with the Soviet Union to buy friends will do is jack prices up. We simply will have to pay more and more to buy the same old "friends."

And what will we be getting for the higher price? It is dubious in the extreme that U.S. national security is enhanced by our financing of Third World government policies that damage their own economies. At some point the chickens come home to roost, and we get regimes that are hostile to us—to wit, Iran and Nicaragua. Is our fear of communism or simply the future such that we have become humble servants of the status quo? We ought to understand that this nation became great not by worshipping the status quo, but by having contempt for it.

The conservatives on the Carlucci commission—and there were surprisingly few—should have agreed to disagree with their liberal counterparts rather than forge an unholy consensus to make foreign aid into an even bigger bonanza than it already is. True, the liberals in Congress have damaged national-security interests by their excessive restrictions on military aid. And, equally true, some of what is labeled economic aid can be military aid in disguise (economic aid to Israel and El Salvador, for example). But why reward the liberals so generously for their obstructionism when, next November, the American people can have quite

a different reward for them at the ballot box? Indeed, the Carlucci conservatives have made it somewhat more difficult for the American public to identify the "bad guys" by joining them on this occasion.

[From the Wall Street Journal, Sept. 12, 1979]

### SOCIAL DEMOCRACIES AND FOREIGN AID

By Melvyn B. Krauss

The social democracies of Northern Europe—Sweden, Norway and the Netherlands in particular—see themselves as great benefactors of the less-developed countries. And in one sense they are. Of all the industrialized nations, these three give the largest proportion of their gross national product to less-developed countries as foreign aid.

Social democrats regard foreign aid as "conscience money" for the alleged wrongs perpetrated on the poorer nations by their capitalistic ancestors. But if they want to feel guilty, social democrats do not have to stoop to make scapegoats of their ancestors. They have plenty of their own faults to feel guilty about.

Foreign aid is only one aspect of the economic relations between the social democracies and the LDC. They also trade with one another. There are several reasons to believe that what the social democracies give the less-developed countries in foreign aid they more than take back through trade.

First, the social democracies no longer consider economic growth to be an unequivocal good. Economic growth ruins the environment. It also means hard work in societies where leisure has become a way of life. Slow growth in the social democracies means that the LDCs export less to them. It also means less job opportunities for migrant labor from the poorer countries.

### FASHIONABLE ATTITUDES

Of course, fashionable attitudes against economic growth in the welfare states has something of the "let's make a virtue out of a vice" about it. When the social democracies were growing well in the 1950s and '60s, economic growth was not considered such a bad thing. But the 1970s have demonstrated that economic growth is incompatible with a good many of the social welfare programs that are endemic to the modern welfare state. Rather than face up to the long-run consequences of this incompatibility, it is much more comfortable to put one's head in the sand and make believe that growth does not count.

An example of a social welfare program that not only slows growth but does so in a way that is particularly detrimental to the LDCs is the attempt to guarantee workers well paid jobs in specific industrial and geographic locales. Governments can do this by giving subsidies to non-competitive enterprises.

That such programs slow growth in the welfare state is clear from the fact that they keep resources in low productivity uses. By itself this is bad for the export industries of the poorer nations. But the LDCs suffer a double loss from such worker security programs, because the industries that are most vulnerable in the social democracies—steel, shoes, textiles, clothing, shipbuilding—are precisely the ones that the LDCs are potentially good at.

If these industries in the social democracies were allowed to go out of business or shrink, as dictated by the market, consumer demand would be satisfied by more efficient producers in the LDCs. But when the Swedish government, for example, intervenes against market forces to protect the job of a worker in a dying industry in Gothenburg, so that he or she does not have to move to Stockholm where jobs may be plentiful, the cost must be borne in part by a potentially efficient worker in a poor country, who cannot find work in his country's export industries.

The issue is not unemployment in the North versus unemployment in the South. The South suffers unemployment only because Northern workers have fixed their sights on *particular* jobs in *particular* regions.

Yet another example of a social democratic policy that works against the poorer nations are regional subsidies. Such subsidies are offered to firms to locate in depressed regions of otherwise wealthy social democracies. Regional policies divert the flow of capital from the less-developed country to the richer social democracy by artificially increasing the rate of return that can be obtained in the depressed pocket of the wealthy country.

It is obvious that social democracy has dramatically increased the share of the public sector in the national incomes of the countries that have embraced it. This is usually seen as a purely domestic consequence of social democracy. But the growth of the public sector in the welfare state has worked to the detriment of the LDCs in at least two clearly discernible ways.

One is that governments typically discriminate strongly in favor of domestic producers in their purchases of goods and services. Government has become an important market in the social democracies that the LDCs are excluded from. The second way is that governments spend more on services than does the private community. Thus, when a dollar is transferred from private citizens to the government, the proportion of the national product allocated to services rises. This hurts LDC exports because the import-content of services like day-care centers is less than that of commodities like televisions and clothing.

#### A GREAT IRONY

It is a great irony that social democracy, the system that has so much championed the cause of the poorer and less developed nations of the world, should work in such a manner as to strangle the LDC economies. The actual damage done can only be guessed at, for as World Bank President Robert S. McNamara put it in a 1979 United Nations address, "the damage often takes the form of frustrated investment and export opportunities rather than clearly identifiable foreign exchange losses or unemployment." But whatever its extent, it is undoubtedly more debilitating to the long-run prospects of the LDCs for economic survival than can be compensated for by "gifts" from their foreign perpetrators.

Finally, it must be stressed, and stressed again, that it is social democracy, not capitalism, that is hurting the less developed countries. Guaranteeing workers jobs in specific industrial and geographic locales, regional subsidies, an ever growing government share of national income, . . . etc.. are not what capitalism and free markets are all about. The LDCs and their advocates should be clear on this. For when the revolution comes, they should march on Sweden, Holland and Norway and not Wall Street.

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[From the *Wall Street Journal*, Aug. 25, 1981]

#### OIL: WILL MEXICO MAKE IRAN'S MISTAKES?

By Melvyn B. Krauss and Karim Pakravan

The economic development of Mexico is of substantial interest to the United States for a variety of reasons—immigration, oil, regional stability and so forth. It is not widely recognized, however, that Mexico's development strategy is the same that was followed by the Shah of Iran to modernize his country—with disastrous consequences. Mexico would do well to heed the lessons of Iran.

The conventional wisdom has it that the collapse of the imperial regime was due to the shah's attempt to modernize Iran too rapidly. But the shah and his economic advisers suffered from an erroneous and ultimately destructive concept of what a "modern economy" consists of—equating it with heavy and capital-intensive industries, nationalization of broad sectors of the economy and the creation of a welfare state.

To appreciate the late shah's blunder, it must be understood that other than for its oil, the Iranian economy is fairly typical of a Third World country—rich in labor, poor in capital and technology. For such economies, the model of economic development should be the four thriving economies of the Pacific Basin—Hong Kong, Singapore, Taiwan and South Korea.

#### OIL SHOULD MAKE IT SIMPLER

These economies have prospered by importing labor-intensive industries (textiles, plastics, toys and so forth) that take advantage of, and give employment to their vast labor resources. These goods are then exported. The only relevant difference between the four countries, and oil-rich, labor-abundant countries like Iran is that oil should make the financing of the labor-intensive industries simpler. In practice it sometimes does not.

Iran is a case in point. The shah and his advisers wanted steel and petrochemicals, not textiles and plastics. Labor-intensive industries, for which Iran is well-suited, were considered "backward." The imperial regime was blind to the fact that such "backward" industries had made Hong Kong, among others, into a prospering economy.

Moreover, pressure for activist government intervention in the economy came from the shah's desk to make Iran into a modern welfare state. It is ironic that the welfare states of northern Europe—Sweden, Norway and Holland—who were the most critical of political repression in Iran, served as models for the shah's social policies.

Economic statistics indicate the increasingly dominant role played by the government in the Iranian economy under the shah. From 1960 to 1969 to 1976, the ratio of public expenditures to GNP rose from 18 percent to 29 percent to 39 percent.

Revealing as these statistics are, they underestimate by a good deal the true extent of government intervention in the economy. The period referred to witnessed a massive increase in licensing, regulations and price controls—all of which do not show up in the statistics, but greatly—and negatively—affect the workings of the economy.

The 1960s and 1970s were the years of the oil boom in Iran. All macroeconomic aggregates rose at impressive rates. But the rapid growth of GNP, total consumption and total investment masked Iran's real economic story: The public sector was crowding out the private one.

There are several reasons why this crowding out helped bring down the shah.

First, the pre-eminent role of government in the economy created a class of entrepreneurs whose livelihood depended exclusively on government contracts. The result was corruption on a grand scale, certainly not limited to the royal family and its entourage.

Second, workers in the nationalized and subsidized modern sectors of the economy were highly paid, thanks to the taxpayers. To compete for labor, *unsubsidized* private business also had to pay high wages—which came out of the owner's pocket, not the taxpayer's.

Third, the government-controlled banking system gave loans at subsidized rates to the modern sector. This increased capital scarcity in the unsubsidized sector, raising the rates it had to pay for loans.

Finally, the government controlled the type of technology Iran imported, stressing labor-saving "prestige" technologies. This failed to integrate the large number of skilled persons in Iran that the imperial regime had itself trained at high cost. Failure to utilize its own stock of "human capital" created a frustrated educated class who saw their personal fortunes better served by a different type of regime.

The mullahs are generally given credit for having brought the shah down. But it is doubtful whether they could have succeeded without the help of other, less religious groups like the traditional bourgeoisie, small businessmen and technocrats, who, despite Iran's enormous oil wealth, had suffered from the failure of the regime's economic policies.

Though Mexico clearly is in different political circumstances than Iran under the shah—there are no ayatollahs lurking in dark corners and political freedom is much greater—the basic precepts and economic policies are strikingly similar to the shah's.

Like Iran, Mexico identified its industrial aspirations with heavy and capital-intensive industries. Mexico's new National Industrial Development Plan commits the nation's resources to capital, not consumer goods. One Mexican economist, recently quoted in *The Wall Street Journal*, stated that "unless the country can overcome its steel problems, its goal of building a modern industrial society may become a pipedream." Declares Jorge Leipen Garay, director general of Sidermex—the state's steel company: "We simply cannot fail. Mexico's industrial future depends on us."

Also like Iran, Mexico has eschewed the free market and allowed government to dominate the economy. From 1977 to 1979, total government expenditures rose at a rate that was on average four to five times the rate of growth of GNP. Most important, the government controls oil revenues.

This is critical because, left in private hands, the oil revenue could be expected to go into the most profitable investments—which in a labor-abundant country like Mexico mean labor-intensive industries. Government control of the oil revenues, on the other hand, creates "pipedreams," like the new problem-plagued

steel mill in Las Truchas and the state-owned petrochemical industry. According to one informed source, "Las Truchas was conceived as a showcase of world steel technology, but in practice it comes close to an industrial tower of Babel."

Mexico follows the Iranian model by building a welfare state for its citizens. Government spending on public housing, health and hospitals, a national food program and other services has increased dramatically in the 1970s. From 1970 to 1977, for example, public consumption increased at an average annual rate of 11 percent, or more than twice as fast as private consumption's increase of 4.5 percent.

#### BUILDING A WELFARE STATE

The northern European countries, at least, had the good sense to build a welfare state *after* they had industrialized. To attempt to do so before industrialization—as Iran did and Mexico is doing—increases the probability that both the desired industrialization will not take place and the welfare state will not survive.

And as in Iran, there is the effect that state domination of the economy has on corruption in Mexico. In the state steel mills, for example, union officials, not management, hire workers—a situation that labor experts say has given rise to widespread featherbedding and corruption.

The chief beneficiaries of Mexico following the example of Hong Kong, Singapore, Taiwan and South Korea, rather than Iran, would be the Mexicans themselves. They would not be stuck with industrial white elephants that squander the nation's oil wealth. Converting expensive oil into cheap steel seems a poor bargain today, even if Mexico could produce steel efficiently.

There is little sense in having showcases of modern, labor-saving production techniques that are unsuitable for a restless population. More than one-third of Mexico's labor force is unemployed, and many have to come north and break U.S. laws just to earn a living. A more appropriate economic strategy would improve both Mexico's relations with the U.S. and the region's stability.

**The CHAIRMAN.** On behalf of the committee, I realize how much time and thought you have given to your testimony and how much time you put in in this room today. We are most appreciative. You have made a major contribution to the work of the committee and we thank you very much.

This hearing is adjourned.

[Additional questions and answers follow:]

#### MR. KRAUSS' RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

**Question 1.** Mr. Krauss, what evidence do you have of the effect on foreign governments of foreign aid? Could you give some specific examples?

**Answer.** Foreign aid encourages recipient countries to follow bad economic policies.—Specific examples of this are Taiwan and South Korea. In both countries, American economic aid financed and sustained wealth-destroying protectionist and anti-private capital import policies. So long as generous U.S. economic aid was forthcoming, Taiwan and South Korea could forego private capital import and export promotion for foreign exchange purposes. But when aid was discontinued in the mid-1960's, the generation of foreign exchange by the private sector became critical. It was not mere coincidence that both countries radically altered their domestic economic policies from import substitution to export-led growth in the face of the U.S. aid cutoff. It was cause and effect.

The consequences of the change of policies on economic performance was dramatic. During the protectionist decade of the 1950's, the average annual growth rate of Taiwanese exports was 15.5 percent; during the free-market 1960's it was 31.5 percent.

Foreign aid increases corruption in the recipient country.—I know of no case where official corruption has not been increased by foreign aid. There is an inseparable relation between the two.

In Bangladesh, for example, food aid meant for starving people never reaches them because the government uses the food to buy votes. The Wall Street Journal reports (April 16, 1981):

It comes as a surprise to a layman, but not at all to the experts that food aid arriving in Bangladesh and many other places isn't used to feed the poor. Governments typically sell the food on local markets and use the proceeds however they choose. Here, the government chooses to sell the food in cut-rate shops to members of the middle class.

*Question 2.* Yesterday, Dr. Henry Kissinger stated that, in his opinion, those countries with free-market systems develop more successfully than those without them. Do you agree? Could you give some specific examples?

Answer. I agree entirely with Dr. Kissinger's statement that those countries with free-market systems develop more successfully than those without them. The evidence is overwhelming.

In 1978, gross national product per-capita was \$1,223 in South Korea and \$555 in North Korea. In West Germany it was \$10,444 while in East Germany it was \$4,721. In Taiwan, it was \$1,488 while in Communist China it was \$443. In all cases, the record of the capitalist country was much more impressive than the socialist one.

Economic growth helps the poor. There is a considerable amount of evidence that free-market type economies produce more social service goods for the people than economies with big government. Table 1 compares Hong Kong, Singapore, South Korea and the Ivory Coast, on the one hand, with India, Ghana, Chad and Zaire on the other. The results are clear: the free market economies had higher growth rates of public consumption than the socialized economies.

TABLE 1.—PUBLIC CONSUMPTION, GROSS DOMESTIC PRODUCT, AVERAGE ANNUAL RATE OF GROWTH

	GDP		Public consumption	
	1960-70	1970-79	1960-70	1970-79
<b>Private sector oriented economies:</b>				
Hong Kong.....	10.0	9.4	8.6	9.3
Singapore.....	8.8	8.4	12.6	6.4
South Korea.....	8.6	10.3	5.5	8.7
Ivory Coast.....	8.0	6.7	11.8	10.0
<b>Non-Communist public sector-oriented economies:</b>				
India.....	3.4	3.4	-1.5	4.5
Ghana.....	2.1	-1	8.5	-2.2
Chad.....	.5	-2	4.4	-1.7
Zaire.....	3.6	-7	8.5	-2.2

*Question 3.* Are there any countries which have developed without any foreign aid? If so, to what do you attribute that development?

Answer. There are several countries that have developed without foreign aid. Indeed, by encouraging bad government policies, the relation between foreign aid and income growth is such that countries can only grow without foreign aid. Hong Kong, Singapore, Taiwan, South Korea are examples of countries that have done best when foreign aid was least. Foreign aid encourages government and bad policies. In so doing, it is antithetical to economic development in poor countries.

*Question 4.* Let me raise with you a question I raised yesterday with Henry Kissinger: What should we do when a nation friendly to us fails to do what we think is crucial for its survival—whether that be negotiations, military tactics, land-reform, or political/human rights measures? Is one part of the problem the fact that threats to cut off aid, at least by the executive branch, are not really credible?

Answer. When a nation friendly to us fails to do what we think is crucial for its survival, often it is because they know better than we do. Naturally, they have better information than we do. Moreover, what we ask them to do often is quite unreasonable. For example, despite overwhelming evidence that land reform in El Salvador has failed from the economic, political and social points of view, our government continues to insist upon forcing this ill-advised policy on the Salvadoran people. Why? Because many American politicians, with no scientific support whatsoever, are convinced that land distribution is a key factor behind the turbulence in that country. These politicians simply are misled, and if the threat of foreign aid cutbacks are the only way they can impose their will on friendly governments, the American people would be wise to take this weapon out of their hands.

*Question 5.* The Caribbean Basin Initiative has pumped just over a billion dollars into that region in the past 2 years—an amount roughly equal to the capital flight from those countries. How do we deal with this problem? How do we guarantee that our aid is not just a replacement for capital flight? If local citizens lack confidence in their country and the future, why should we foot the bill?

*Answer.* Citizens of the Caribbean Basin know the United States is going to play an important role in the evolution of their institutions and they don't like what they see. The capital flight is a vote of lack of confidence in U.S. leadership. Instead of promoting free enterprise, we are promoting socialism in the region. Can you blame those who have capital to want to protect it from those who would take it away from them in the name of social justice? Instead of waging an effective battle against Soviet-Cuban aggression, Congress is pre-occupied with placing "human rights" conditions on military aid to our friends. They have no faith in the future because they think we are following bad policies there. And they are right!

*Question 6.* Some experts question the ability of the nations of Central America to absorb and effectively use the doubling and then tripling of U.S. economic aid over the next 2 years, as recommended by the Administration. From your knowledge of the U.S. aid bureaucracy, and local governments, what do you see as limits to their capacity to absorb additional aid? Are there some prerequisite steps we should insist on before granting major increase?

*Answer.* There is virtually a consensus amongst experts that the Central American economies can not absorb and effectively use the doubling or tripling of U.S. economic aid over the next 2 years. The increased aid simply will lead to corruption and waste on a magnified basis. It is quite shocking that the administration feels it cannot get Congress to do the right thing militarily without paying off Congressional liberals for their support of increased military aid to our allies in Central America.

*Question 7.* Do you have any knowledge which would lead you to agree or disagree with press reports that the Salvadoran army, despite enthusiastic U.S. training, has reverted to its old habits and passive tactics and thus has suffered several recent setbacks? Why might this be the case? Can U.S. counterinsurgency tactics be transplanted to Central America

*Answer.* I do not have the expertise to answer this question.

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#### **AMBASSADOR MOSS' RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD**

*Question 1.* Let me raise with you a question I raised yesterday with Henry Kissinger: What should we do when a nation friendly to us fails to do what we think is crucial for its survival—whether that be negotiations, military tactics, land reform, or political/human rights measures? Is one part of the problem the fact that threats to cut off aid, at least by the executive Branch, are not really credible?

*Answer.* If a nation is failing to do something which literally is crucial for its survival, then the United States has no choice but to indicate that it will cut off aid or make good any other threat that it has issued. There is no point in going down with a sinking ship. Part of our problem seems to have been that threats to cut off aid have not been credible, for a variety of reasons. In El Salvador, there is widespread belief that the United States simply would not do something to allow the Marxist guerrillas to win the war. United States officials, by issuing equivocal statements, often reinforce this belief. Recent Administration statements to the effect that the human rights situation in El Salvador is improving thus appear to back off from the strong positions taken by Vice President Bush and Ambassador Pickering late last year.

*Question 2.* The Caribbean Basin Initiative has pumped just over a billion dollars into that region in the past 2 years—an amount roughly equal to the capital flight from those countries. How do we deal with this problem? How do we guarantee that our aid is not just a replacement for capital flight? If local citizens lack confidence in their country and the future, why should we foot the bill?

*Answer.* There is no perfectly effective method of controlling flight capital. Attracting that capital to return to countries in Central America will require that peace and security be brought to the region and also that ample opportunity be established for capital investment. Our AID program should have the recon-

struction and reinvigoration of the private sector as a primary goal, within the Caribbean Basin Initiative framework. In addition to foreign assistance, we should look at existing trade legislation with a view toward eliminating all barriers to Central American export to the United States wherever possible.

*Question 3.* Some experts question the ability of the nations of Central America to absorb and effectively use the doubling and then tripling of U.S. economic aid over the next 2 years, as recommended by the Administration. From your knowledge of the U.S. aid bureaucracy, and local governments, what do you see as limits to their capacity to absorb additional aid? Are there some prerequisite steps we should insist on before granting major increases?

Answer. In my own experience with our AID program in Panama, I would say that countries of the region can effectively use greater amounts of foreign assistance. In addition to development projects within each country, assistance is needed to stimulate regional integration, through provision of funds to such institutions as the Central American Bank for Economic Integration (CABEI.) Absorption is adversely affected, of course, by the lack of qualified personnel at middle levels in many countries to design and implement projects in accordance with AID guidelines. The results are that in each country one finds many projects in the "pipeline." For foreign assistance to be effective, there should be no relaxation of the standards and criteria presently required by AID. That agency could, however, dedicate special efforts toward reducing the time necessary for the completion of projects, which may require hiring more local contract employees at better salaries than those presently provided.

*Question 4.* Do you have any knowledge which would lead you to agree or disagree with press reports that the Salvadoran army, despite enthusiastic U.S. training, has reverted to its old habits and passive tactics and thus has suffered several recent setbacks? Why might this be the case? Can U.S. counterinsurgency tactics be transplanted to Central America?

Answer. Press reports on the performance of the Salvadoran army are, of course, mixed, and I have no special knowledge in that regard. The position of the United States Southern Command, which has the best first-hand knowledge of the situation, is that the Salvadoran army is competent and can perform. We cannot second-guess these experts, but the results will speak for themselves.

#### MR. PHILLIPS' RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

*Question 1.* Mr. Phillips, why is The Conservative Caucus so concerned about the Central American situation?

Answer. As a non-partisan, public policy organization committed to the defense of American liberties and American sovereignty, The Conservative Caucus is necessarily concerned about the growing Marxist-Leninist threat in the Western Hemisphere.

*Question 2.* Do you see anything in the Kissinger Commission report that, in your opinion, could serve as the foundation for constructive efforts to stop Communism in this hemisphere?

Answer. The most useful part of the Kissinger Commission report is the recognition incorporated therein that there has indeed been a significant Soviet-Cuban military build up. The recognition of this reality, however belated, is a necessary precondition to the formulation of sound policies.

*Question 3.* For years The Conservative Caucus has been warning about the danger of Cuba to the United States. Do you think the Kissinger Commission's report adequately addresses that problem? What, in your opinion, should the United States do about Cuba?

Answer. The Kissinger Commission report refers to the incremental Soviet military build up in Cuba, which has gone forward despite promises which were perceived to have been made in the context of the 1962 Cuban missile crisis and its aftermath. An essential first step in dealing with the crisis in Central America, which is primarily a military and ideological crisis, is to share with the American people the complete history of the military build up in Cuba since 1962. Because of our concern on this matter, The Conservative Caucus filed a Freedom of Information Act request with the State Department on July 28, 1983, seeking a public release of documents relating to the Kennedy/Khrushchev Accords and their implementation. Because of an apparent reluctance on the part of the State Department to comply with our request for access to non-classified information, it became necessary for The Conservative Caucus to go to court to insist on enforce-

ment of the public's right to know. On December 5, 1983, Judge June L. Green ruled in favor of The Conservative Caucus, and the State Department has been obliged to complete the fulfillment of its obligations under the Freedom of Information Act by delivering to The Conservative Caucus roughly one-third of the available information no later than March 12, 1984.

*Question 4.* How do you think the Monroe Doctrine should be applied to the situation in Central America?

Answer. From 1823 to 1959, the Monroe Doctrine safeguarded U.S. vital interests and helped preserve the sovereignty and independence of the nations of Central and South America. A first step to the restoration of the Monroe Doctrine is its reassertion. In that context, President Reagan, with the support of the United States Senate, ought to make clear to the Soviet Union and other nations that the United States will act to bar any further introduction of military equipment into the Western Hemisphere, even by means of interdiction, if such were to prove necessary.

*Question 5.* Let me raise with you a question I raised yesterday with Henry Kissinger: What should we do when a nation friendly to us fails to do what we think is crucial for its survival—whether that be negotiations, military tactics, land reform, or political/human rights measures? Is one part of the problem the fact that threats to cut off aid, at least by the executive branch, are not really credible?

Answer. U.S. policy must be premised on what serves the U.S. national interest. If it serves our national interest to prevent El Salvador from becoming another Soviet proxy government, such as that which now rules in Nicaragua, then other considerations must be subordinated to that central requirement.

*Question 6.* The Caribbean Basin Initiative has pumped just over a billion dollars into that region in the past 2 years—an amount roughly equal to the capital flight from those countries. How do we deal with this problem? How do we guarantee that our aid is not just a replacement for capital flight? If local citizens lack confidence in their country and the future, why should we foot the bill?

Answer. We should not foot the bill. There has been a capital flight from Central America because of concern about the region's stability. That concern has arisen as a result of (a) the failure of the United States to maintain the Monroe Doctrine, permitting as we did, the development of a Soviet base in Cuba and (b) our surrender of the U.S. canal and zone at Panama, which was a signal that the American umbrella of security was no longer assured.

*Question 7.* Some experts question the ability of the nations of Central America to absorb and effectively use the doubling and then tripling of U.S. economic aid over the next 2 years, as recommended by the Administration. From your knowledge of the U.S. aid bureaucracy, and local governments, what do you see as limits to their capacity to absorb additional aid? Are there some prerequisite steps we should insist on before granting major increases?

Answer. Until the security problem is resolved, additional aid is of a highly questionable value.

*Question 8.* Do you have any knowledge which would lead you to agree or disagree with press reports that the Salvadoran army, despite enthusiastic U.S. training, has reverted to its old habits and passive tactics and thus has suffered several recent setbacks? Why might this be the case? Can U.S. counterinsurgency tactics be transplanted to Central America?

Answer. Sound strategic and tactical principles are applicable with some variations everywhere.

[Whereupon, at 1:14 p.m., the committee adjourned, subject to call of the Chair.]



## A P P E N D I X

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### STATEMENT BY DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

The idea for a national commission on U.S. policy toward Central America originated in Congress—in a proposal to develop a sort of Marshall Plan for Central America and to start the process with a blue-ribbon commission on U.S. policy needs in that region. It was recalled that the commission on the Marshall Plan, chaired by former Secretary of State (and later Secretary of War) Henry L. Stimson, played a major role in securing broad national support for that epic venture in U.S. foreign policy. A commission on Central America, in its turn, had potential for considerable service to national understanding of Central America's problems and needs, and of U.S. policy imperatives in this regard. In many respects, the so-called Kissinger commission has made such a contribution. However, those who proposed creation of such a commission, and the President who established this one, in a sense put the cart before the horse. They thought "Marshall Plan" (as a symbol of the priority a long-term U.S. policy on Central America required), but they appeared to have been unmindful of the Marshall Plan scenario in which the blue-ribbon commission of that period played such an important part.

The Marshall Plan did not start with a commission. It did not even start with a plan of U.S. aid to war-torn Europe. When Secretary of State Marshall, at the Harvard commencement of June 1947, launched what came to be known as the Marshall Plan, there was no plan; there was only Marshall—in the sense of his invitation to the nations of Europe to formulate their own coordinated program for European economic reconstruction, and his pledge of U.S. assistance to a well-prepared program. The West Europeans responded enthusiastically and productivity. The Stimson commission was formed to stimulate public support for full U.S. participation. The rest is history.

Thus, what is lacking today on the Central American issue is a long-term-development proposal from the Central American countries themselves as the crucial basis for a well-designed strategy of U.S. assistance. What is needed to evoke such a proposal is a dramatic U.S. invitation to the nations of Central America (all of them), from the President of the United States or the Secretary of State, to stop the waste of lives and resources that so ravages the region and produce, with deliberate speed, a joint prospectus on their basic development and security needs, on their ability to achieve these objectives, and on the help they will need from outside sources. The invitation should emphasize basic economic, social and political criteria for an acceptable prospectus (including protection and enhancement of basic human rights, and the greatest possible involvement of the private sector). The invitation should be coupled with a pledge of U.S. determination to help cooperating countries carry-out a well-designed development program. Assistance in drafting such a prospectus would be available from U.S. government and private sources, from Latin American regional agencies, from United Nations institutions, and elsewhere.

The fact that much of the region is racked with military conflict is of course a serious obstacle to formulating and implementing such a program. However, it is possible that urging the Central American countries to work together in designing the prospectus would introduce a new, highly productive element into Central American dynamics, helping to spur peaceful, constructive endeavors by these countries, or at least by as many of them as may seriously respond to the U.S. initiative. To the extent that one or more countries do not respond in the manner

for which we hope, the laggards are not likely to ignore what the cooperative efforts of the others would be generating, and might sooner or later be stirred to take part.

The fact that the Kissinger commission was formed (and produced its report) before such an invitation does not negate the significance of proceeding along these lines at this time. Such a prospectus from the Central American countries on what they need and how they would use American aid is essential to meaningful, realistic action by Congress in appropriating scarce resources for a major aid program in this area. The Central American response to the U.S. invitation I propose could in fact take account of the points and proposals emphasized in the commission's report. Much of the material in the report could be very useful to efforts to generate public and Congressional support for a suitable proposal from the Central American countries, if one should be forthcoming.

Too much time has been lost in the failure of the United States to launch the kind of initiative I have advocated. An immediate U.S. call for such an indigenous prospectus may well be more productive than the commission's proposal (p. 47 of the report) that the leaders of the United States and the Central American countries "convene a conference this year to discuss the impediments to and opportunities for economic, political and social development."

#### TRADE PROPOSALS INADEQUATE

Limiting the balance of this statement to a policy area with which this Council and I are particularly concerned, we are greatly disappointed in the failure of the commission to speak more boldly on the need for the United States (and the other industrialized countries) to open their markets more progressively and dependably to the whole range of goods produced in Central America. As I have said in testimony on the Caribbean Basin Initiative (CBI), I believe we need a deliberate, definitive, free-trade strategy projecting U.S. participation in a free-trade area with as many industrialized countries as may care to join with us in such a venture and, in the process, programming equivalent status for imports from all developing countries that agree to suitable commitments in the spirit of reciprocity. The Caribbean Basin countries would not be given preference over other developing countries, in whose development and security the United States has a huge economic and national-security stake. There would be no violation of our international commitment to nondiscrimination, hence no need for a waiver of the rule on this subject in the General Agreement on Tariffs and Trade.

Short of such a free-trade strategy, and limiting U.S. action concerning Central America to a bilateral initiative focusing on trade with the CBI countries per se, the trade provisions of the CBI are themselves not bold enough. Nor is there assurance, in the way the U.S. government responds to the problems of ailing U.S. industries, that the duty-free treatment accorded certain imports from the Caribbean Basin countries will be sustained even for the specified 12 years in the face of serious problems that might develop in competing U.S. industries. The 12-year limitation on duty-free status is itself not good enough. We should be planning permanent free-trade status. The commission's endorsement of freer Central American access to the world's major trading countries is commendable, but it is too timid a proposal in the face of what urgently needs to be done in trade policy, especially considering the national-security implications on which the commission placed such emphasis.

I find less than stimulating the commission's urging the United States to review nontariff barriers to imports from Central America with a view to using whatever flexibility exists in multilateral arrangements (concerning sugar, textiles, etc.) to obtain more favorable treatment of Central American producers. Like the "liberal trade" community almost without exception, the commission's views on trade policy fall far short of what the national interest urgently demands.









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